Fuel crisis forces total marketing rethink

by Peter Young

THE fuel crisis has caused some heavy rethinking among those responsible for selling the small car to a public largely unprepared for it.

The 0-1300cc market is highly price competitive, with less than $800 bracketing the top 12 sellers. The only exception in this price bracket is the low-priced and largely unavailable Lada at $6165.

The typical 1300cc car buyer today is parting with anything from $7000 to $8000 for what is usually no-frills transport. Thus marketeers must work in other directions to attract the attention of the would-be buyer.

Ford is an old hand at this game. A long time ago it learnt that motor racing (even in these times of alleged fuel shortage) sells cars.

It is a lesson Ford has learnt thoroughly. It has helped the company to achieve market dominance in that capacity in New Zealand and Britain and tackle the European market head-on.

Its factory prepared cars (or "works" cars, as they are known) have won every major rally worth winning and a huge promotional machine has matched racetrack and rally wins to saleroom success.

A convincing demonstration of this was given recently in the Motogard Rally, this year's round of the World Rally Championship of Makes and a full international which attracted five overseas entries.

The event itself is now done and gone. But the marketing plans worked out and implemented by the main protagonists are worth a closer look.

Ford started as top dog with two brand-new "works" Escorts in the hands of Finns Hannu Mikkola and Ari Vatanen. These two top-class entries were backed up by a gaggle of local drivers in similar, older cars.

They could rely on sheer force of numbers to see them in the winner's circle.

General Motors, unofficially at least, has learnt the lesson that rallying sells cars in Britain and decided to apply it here with a dealer-backed team.

A brand-new "works" Vauxhall Chevette and top Finnish driver Pentti Airikkala were provided for the attempted giant-killing act against Ford. But things went wrong from the start.

Datsun, on the other hand, mounted a lower-pitched effort. Two cars were sent for Datsun Europe team which runs the Japanese company's rallying effort in Britain and Europe.

Its cars were competing in the less highly-modified Group Two and thus bore a much closer resemblance to the road car on which the rally cars are based. It is a model not yet sold in New Zealand so Datsun's rallying effort was very much pitched to gain rally championship points and wave the flag for the local assembler.

As the rally approached, General Motors launched its Chevette Enduro model, a tarted-up version of the standard car, incorporating lessons learnt from a marathon record-breaking drive at the Manfeild race circuit last year.

The highly modified rally car was introduced to the press at the same time and all present were deeply impressed with the car, driver and thinking behind the move.

The GM participation was more than welcome in a sport that both internationally and locally has for too long been dominated by Ford.

Datsun chose to emphasise the benefits of testing cars in as near to production form as possible for such a major event.

As the rally began, the protagonists were positioned clearly. Ford had the high ground. General Motors dealers were staking their all on just one car and Datsun was waiting in the wings to pounce should any misfortune befall the 'supercars'.

It is history now that Ford won the battle, but only just as its top cars were dogged with mechanical problems.

General Motors gambled big and lost heavily when a minor electrical connection came adrift in a freezing Taupo forest and the car was sidelined while running third.

It could be said that the deck was stacked against GM from the start — parts and tyres failed to arrive and a badly flooded special stage meant the loss of several minutes at a crucial point.

Datsun, on the other hand, was placed second and sixth, only to be totally excluded from the event when a communications gap between Japan and New Zealand prevented rally officials from checking the cars.

It is an open secret that both GM and Datsun's advertising agencies had the appropriate material prepared for publication in the event of their vehicles winning.

It wasn't needed, as fate would have it, but what is puzzling is the absence of trumpet-blowing by Ford ... cars placed first, second, ... and fourth, with a ... local Chevette ... some kudos for the Genera... fifth place.

But there has been ... direct advertising ... the Ford success — could ... a case of cold feet over ... reaction to rallying?

Whatever, motorsport ... contribution to ... consumption is minisc... than a quarter of a per ... total leisure-... consumption) as motor... officials are at pains to ... out to a largely sympa... public.

So the status quo ... with Ford in dominance ... the General Motors' effort ... gs on with a top local ... piloting the Chevette ... major New Zealand ...

The boldness of this ... welcome in a market ... accustomed to ... marketing and must ... dividends for the Gen... dealers long term.

Datsun got a return ... investment in the ... initial publicity ... weren't tossed out ... day after the event ... but blew a potential ... towards the ... championship and ... estimated $60,000 ... here.

Other assemblers ... involved at all, prob... their chagrin when ... the media space devot... contestants and their ...

As one old rally ... observed, running ... international event is ... adjunct to the behind-... scenes marketing exerc... implemented by ... manufacturers.

But despite ... machinations of the ... marketeers the old saying ... "when the flag drops ... bulldust stops" applies ... this case the score was:

Ford — 10 out of 10

GM — full marks for ...

Datsun — impressive, ... fell down on detail.

Ford holds number one

FORD Motor Company ... tinues to hold the ... spot as largest supplie... cars. It has captured ... cent of the market ... year, heading off a ... challenge from Toyo...

Ford's success ... tributable to ... at the Cortina ... cellent showing in ... market by its ...

Looking at ... assemblers, General ... seem to be going ... rough patch which ... share decline ... be looking for better ... revised Chevettes ... from Commodore ... Toyota's challenge ... four in New Zealand ... revised Corona range ... is selling well ... managed to push GM's ... Sunbird down to eight...

Datsun appears ... holding its own ... does not have a car ... 10 placings. It may ... strong challenge from ... later this year ... four cylinder market ... will face strong ... from the new Mazda ... range is well priced ... boost Mazda regis... the next half. The ... eat into 200B sales ... Cortina, Sigma and ... is a good product ... and modern and given ... new entry into the ... litre market.

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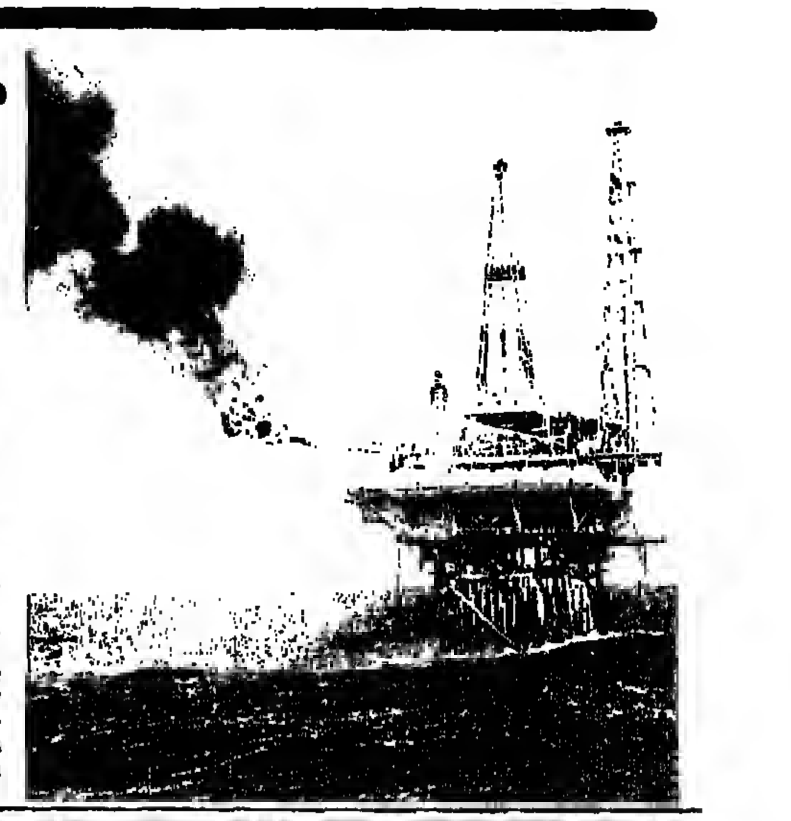
ENERGY SPECIAL

The energy crunch: our future on the line



POLITICAL decisions made over the next few weeks will determine, for at least the next 20 years, the shape of New Zealand's economic, environmental and social future.

After allowing it to gestate for several years, the Government is about to hatch New Zealand's essential energy policy. The question on everyone's lips, of course is: "Will they lay another egg?"

Faced finally with the need to make some choices about future energy needs and sources, the politicians are responding. But a politician's hesitation to make a decision is sometimes less annoying than having to live with the decisions they eventually make.

As James F. Duncan, chairman of the Commission for the Future, noted when commenting on the future use of New Zealand's natural gas reserves: "The way we respond to choices of this kind will determine what New Zealand will be like in the future."

This special issue of National Business Review has been devoted to discussing New Zealand's energy future because this newspaper believes it to be the single most important topic presently confronting the country.

We do not pretend to, nor are we competent to, offer solutions. National Business Review simply provides some of the background information that may help readers to evaluate the quality of the decisions made in the near future.

As a newspaper, we are apprehensive about the decisions likely to be made, simply because New Zealand does not have a particularly good track record in the field of political decision-making.

This time a further dimension has been added to the process. For the first time in many years an element of political ideology has crept into the story, and this may well influence the way things go.

Voters therefore will be made to marry up their inclinations with their attitudes toward socialism, private enterprise and nationalism.

The energy issue is a complex one. The complexity relates not only to the technicalities of processes, return on investment and so on, but also to the complexities of the world marketplace in an energy and energy derivative sense.

Overlaying all this is the other most crucial issue facing this country, the parlous state of the national economy.

It is out of this conflict between which way New Zealand might best re-emerge from its economic mess that the conflict between economic ideologies has developed sending factions within the present Government into possible opposing corners about how best to exploit natural energy resources.

The need to chart a sensible economic future for New Zealand is vitally important, and within that, energy and its development is a central issue. Historical relationships are relevant to the extent they may provide a useful measure of the ways things happen, but more important is the politicians' ability to gauge what might be essential to a healthy economy in future.

New Zealand faces the need to make decisions over the best utilisation of all natural energy resources. This means both maximisation of income saving or maximisation of potential for earning from those resources.

But because energy has also become a political tool, it can also mean looking at the need to protect the country against future developments internationally over which this country will have no direct control.

Professor Duncan referred to it as New Zealand's need to adopt the principles of the maintenance of flexibility and sustainability. "Diversity and flexibility is our best protection for the future," he says. But "sustainability is the only way to ensure that New Zealand is viable in the long term".

One measure of the decision-making performance of the politicians might, therefore, be the extent to which they make decisions which contravene these two very sound principles.

New Zealand, say the experts, is energy rich.

If that is the case then another measure of performance might be the degree to which the decisions made squander that wealth, or give it away at less than a good market price.

One of the dangers facing this country in the present decision-making flurry, is the fact that New Zealand has not yet clearly defined its goal for the future.

The options of economic growth versus, say, economic self-containment, or even high environmental preservation, have not been spelled out. And these options are fundamental to future energy policies.

But it does seem naive to think that New Zealand can isolate itself from the rest of the world and survive. To that extent our development must fit in with what is likely to happen internationally.

Further, this country has not spelled out what it means by a higher standard of living for the individual. Again, this should be taken into account.

But for the purposes of this special issue, National Business Review's writers have worked on the assumption that energy resources will be exploited for expanded economic growth. Options like leaving natural gas in the ground, coal in the mines, water not converted to electricity, have been largely ignored.

As a second level approach, an attempt has been made to measure influences of political currents that are running both within the elected political structure, within the public service and within private industry, and then between all these groups.

Traditionally, New Zealand has been greatly influenced by lobby groups and this particular issue is no different. Therefore, a further measure of the standard of decision made might be an assessment of the extent to which the politicians appear to have bent to the wishes of the lobbies that have been operating over recent months.

Despite the complexities of the oil issue, New Zealand desperately needs the benefit of some good policy decisions.

It is impossible to divorce the politics from the decision-making, but in this instance the ad hoc way in which the New Zealand political system works is not good enough.

The considerations involved in choosing the energy options are to some extent different to those governing other major economic developments. It is not a simple case of private enterprise versus state ownership.

While New Zealand has created a rigidly structured economy that is not well geared to the encouragement of private incentive and enterprise, that does not mean that a blank cheque should be given to the multi-national oil companies to develop and exploit the country's natural energy reserves. The multi-nationals are so large that they are states within states.

On the other hand, none of this is to suggest that the oil companies do not have something to contribute in the development of the natural gas field in particular. For instance, they have both capital and expertise.

Hopefully, this issue of National Business Review will assist readers studying the energy debate to better follow its course and perhaps understand why the decisions turn out the way they do when they do.

NATIONAL BUSINESS REVIEW'S staff of full-time and contributing writers researched, and wrote this special energy issue.

They included Reg Birchfield, Colin James, John Draper, Belinda Gillespie, Brent Walsh, Mary Varnham, Peter Isaac, Helen Pickford, National Business Review's economic, Christchurch and Invercargill correspondents, and a specialist energy writer.

Warren Berryman and Barbara Tetley assisted with research.

Edited by Bob Edlin.

Your regular National Business Review begins on page 25.

Depressed economy the price we pay for oil

NEW Zealand's dependence on imported oil has aggravated economic conditions in the 1970s. The formation of OPEC and the subsequent oil price rise in 1973 helped turn a balance-of-payments surplus of more than $100 million in December 1973 into a deficit of more than $1350 million by June 1975, the largest deficit ever recorded.

And over the next year and a half, oil prices again will have a significant influence on economic activity. If the producer nations continue to put up their prices at the present rate, our dependence on imported oil will become as important a factor shaping economic conditions as Government spending, wages and salary increases, fluctuating agricultural markets and other export conditions.

When overseas oil producers burp up their prices slightly, the New Zealand economy suffers minor convulsions six months later.

Domestic inflation increases, and the foreign exchange situation weakens. But even more unsettling is the impact of oil prices on the overseas deficit.

After large increases in oil prices in 1974, the OPEC nations kept prices relatively stable until December 1978, when they saw their world position weakened by the falling US dollar and world inflation. After a meeting of the OPEC nations, it was decided to raise the price of oil from $US12.70 a barrel at December 31, 1978 to $US14.55 by October 1, 1979.

But by March this year, oil price rises had not risen rapidly enough to restore OPEC oil price purchasing power to what it had been after 1973. The exclusive use of the US dollar as the currency of petroleum payment remittance and world inflation meant that the oil-producing nations were getting less and less in world goods and services in exchange for each barrel of crude oil sold.

So the impatient producing nations began to put up their prices faster than planned last December.

Already, the "marker" price is around $US18 a barrel and can be higher depending on where the barrel is purchased. Many oil producing countries charge premiums above the "marker" price and prices on the "spot market" are higher still.

These oil price rises contribute to New Zealand's inflation rate. The actual cost of private transport eventually rises, once any surpluses in the Motor Spirits Pool Account (a memorandum account administered by the oil companies which pays out costs for supplying motor spirits and collects revenue from consumers) are used up. This will add to the cost of transporting goods and this cost will eventually be passed on to the consumer in higher prices.

But prices will also rise because of Government policy to link energy prices to the price of crude. When the crude oil price rises, so does the cost of electricity and the cost of natural gas and so on.

New Zealand's foreign exchange position is weakened with oil price increases because of the necessity of paying for oil in US dollars.

But to pay in US ... New Zealand has to ... dollars. As the price of ... up, New Zealand has ... that many more US ... And recent price ... have been too great to ... simply by the ... valuation of the New Z... dollar against the US ...

While oil prices play ... with inflation and ... rates, the worst problem ... changing crude oil ... the effect on the bala... payments. A deteriora... the balance of pay... situation has historically ... enough to throw the ... Zealand economy ... recession.

Imports of mineral ... totalled $466 million las... year.

Estimates put the ... 1979 figure at $800 ... Already price increa... July and August have ... approximately $100 mil... to the value of New Ze... mineral fuel imports for ... year 1980.

As the price is expe... rise still further, mineral ... alone could add as m... $300 million to the bala... payments deficit by ... year.

A colder than usual N... winter could have ... repercussions for ... Zealand. The greatest ... wide demand is ... gasoline but for that part ... crude barrel refined ... heating and goods transp... world demand incr... significantly, prices ... even faster.

The increasing price ... will also be a major ... behind a worsening of ... Zealand's terms of ... position later this year. ... terms of trade for ... quarter 1979 were the highe... in five years, but OPEC p... rises are likely to quickly ... out this positive achieve...

When the OPEC price ... it takes more export inc... pay for the same amo... imported crude. But the ... rise in the OPEC pri... directly affects the price ... other imports.

The list of items made ... once cheap petroleum ... products is extensive.

Further, as our tra... partners have to stand ... increased cost of imp... fuel, they will pass on ... their extra costs as incr... prices to the New Ze... importer.

New Zealand's relatio... with crude oil is very ... love-hate relationship ... economy loves the ... Imported oil brings ... withstand the increas... associated with impor... More imaginative poli... answer.

A bilateral meat-for-oil ... could be arranged with ... producer country. ... example, Saudi Arabia ... taken an ongoing meat ... dairy products supply from ... in return for oil.

Of course, there is some ... in forming such a relation... as the oil producing countr... tend to be politically vola...

Early this year, the Iran... protest against the ... caused headaches in ... Zealand since about 50 per ... of our oil supply was from ... country.

If our indigenous ... were developed at the ... time, the economy would ... less susceptible to the ... of the oil producing na...

With both local mineral ... resources and a bilateral ... agreement, policy ... could pick and choose the ... energy supply between ... possible worlds. This ... make things a lot easier ... poor old economy.

Natural gas — the energy-crisis insulator?

THE term "energy crisis" is uncomfortably familiar to a large percentage of New Zealanders and as the search accelerates for methods of insulating this country against spiralling oil prices, attention has been focussed sharply on the production of natural gas.

Three distinct reservoirs containing gas and condensate in commercial quantities have been found. They are the familiar Kapuni, Maui A and Maui B fields.

A fourth — Toko 1 — may join this list. Drilling there is expected to reach completion within the month.

Kapuni has been recognised as a significant gas-bearing field since 1959, but the estimated reserves in this and the other fields are still a matter of controversy.

The much publicised "Goals and Guidelines" does contain estimates. But these appear conservative when checked against those in oil company publications.

This could, perhaps, be explained by the eagerness of the oil companies to promote the desirability of higher, more profitable offtakes and a true estimate of the reserves is likely to fall between the two.

It is clear, however, that by far the largest quantities of wet gas are contained in the Maui fields, 40 kilometres off the Taranaki coast.

The "Maui White Paper", published in 1973, assessed the recoverable reserves of wet gas at 5325 x 109 standard cubic feet. This was updated in a 1975 Shell, BP and Todd publication to become 6230 x 109 s.c. ft and in February of this year "Energy International" put the value of the Maui field at $NZ5700 million because of a reported 32 per cent increase in reserves.

Whichever estimates one takes, Maui is more than just a drop in the ocean.

At 6230 x 109 s.c. ft the field is close to 42 per cent of that of Brunei — one of the largest liquefied natural gas exporters.

A similar range of estimates exist for the Kapuni reservoir which is situated in the Taranaki Basin, but those acknowledged by the consortium of owners are 660 x 109 s.c. ft of wet gas and 259 petajoules of condensate.

Toko 1, which is also in the Taranaki Basin, is expected to be of a similar size and a re-evaluation of reserves will take place when the drilling reaches the hydrocarbon bearing sands.

New Zealand therefore has potential reserves of 8000 x 109 s.c. ft of wet gas from which 7500 petajoules of condensate and over 241 petajoules of liquefied petroleum gas can be extracted.

The term "wet gas" refers to the hydrocarbons as they exist in the reservoir.

In the Maui fields, the "wet gas" is present as a highly compressed gas within the spaces of very porous sand layers. The sand layers are trapped beneath a dome-shaped formation of impermeable shale through which production wells are drilled.

The "wet gas" is principally made up of three hydrocarbon components. As it reaches the well-head, a drop in pressure and temperature condenses out the first component, condensate, which is the heaviest fraction.

The condensate is also the most valuable fraction as it can be refined directly into petroleum gas, gasoline, kerosene, fuel and lubricating oils and waxes.

Gas minus the condensate is piped ashore where it is possible to extract a middle fraction, liquefied petroleum gas, consisting of propane and butane in the gas treatment process.

LPG is being removed from Kapuni gas but, until recently, was seen as of little value to New Zealand.

Now the Natural Gas Corporation has installed equipment to recompress LPG so that it can be marketed as a motor fuel and for use by domestic and commercial consumers.

The Kapuni treatment plant was designed to separate out 20,000 tonnes of LPG a year. Should LPG be extracted from Maui gas, up to 20 times this amount would become available.

Even though demand for this petroleum product is rising rapidly in New Zealand, the capital involved in extending the separating and storage facilities may limit the growth of LPG production.

After the condensate and LPG have been removed, a third fraction – dry gas – remains.

Dry gas is methane and ethane. And 85 per cent of the energy in the Maui field is stored in this form.

When Maui was developed, it was therefore necessary to ensure a dry gas market. Only through high offtakes of gas could the development of the field be justified at all and utilisation studies showed that electricity generation provided the only large, economic outlet.

It was realised that the generation of electricity by gas was only 30 per cent efficient, but the inefficiency at least ensured large offtakes.

What wasn't realised was that the 3000 megawatts of electricity it would produce would not be needed.

New Zealand now has surplus generating capacity in the hydrostations already built and under construction. This has left the Government the choice of spilling water to ensure the use of a non-renewable resource or of finding an alternative method of disposal for the dry gas.

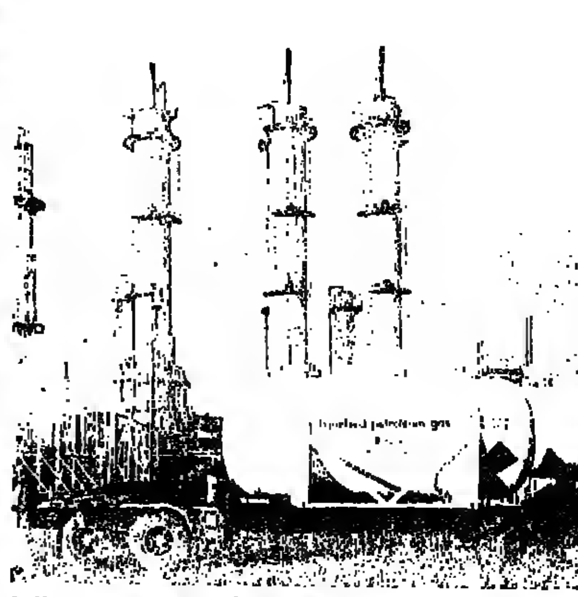
There appear to be four possible options which can be adopted separately or in some combination.

- To flare the dry gas. This would require no capital investment, but it would allow the more valuable fractions of condensate and LPG to be recovered.

This is an option of zero efficiency in terms of dry gas use, but it would go some way towards meeting the goal of cutting back oil imports. At present the Maui gas that is not being used for electricity generation is being flared. Flaring may continue in order to level out the fluctuations in gas demand.

- To export the gas in some form. The $NZ2 billion Shell Liquefied Natural Gas plant would do just that; liquefying the gas to become 600 times more concentrated so that it can be shipped economically in cryogenic tankers. This process is about 80 per cent efficient and would aim at financing our oil imports with earnings from a product that is expected to rise in price with oil.

- To use the gas within New Zealand. Several proposals have been put before the Government by oil and chemical companies. BP's methanol and petro-chemical plant is one such proposal. Methanol is a product that could be used in New Zealand as a petrol additive, but it also has several other chemical uses including the manufacture of resins. BP envisages that as well as methanol, ammonia and urea could be produced and marketed in New Zealand. Its proposal however, does not aim solely at the New Zealand market; 50 per cent of the methanol production is planned for export.


LPG . . . recompressed at Kapuni.

Methanol production has an efficiency of 60 per cent. This is higher than if gas was used in electricity generation or reticulated directly to the consumer. The conversion of gas into synthetic fuels has an efficiency between methanol production and direct use and has become a popular option.

Two synthetic fuel processes exist, Mobil and Fischer-Tropsch, which convert the gas into varying quantities of LPG, petrol, diesel and heavier hydrocarbons. In the conversion of gas to a synthetic fuel, a clean-burning fuel is altered to one that may require a lead additive and leave carbon deposits on the motor.

Compressed natural gas may present a better motor fuel option, but reports have shown that the consumers conversion costs are balanced by the fuel savings only when relatively high distances are covered.

- The fourth option — involving a large degree of uncertainty, — is reinjection. The "wet gas" would be removed, stripped of the condensate and LPG and the remaining dry gas would be reinjected back into the reservoir for later use. The Maui A platform does not have reinjection facilities, but they may be constructed on Maui B.

There is another option — closure of the field for two or three years. This is mooted by some as a way of slowing the blind rush towards committing our major gas reserves in an effort to prove the field economic.

Which ever option is chosen, the decision will affect New Zealand's growth in the short-term and is therefore a decision in which the people of New Zealand should be involved.

It may also be time to consider what happens when both the gas and oil run out.

Rising freight costs blow to manufacturers

PERHAPS no term in common usage is more misleading than "energy crisis". New Zealand has an energy abundance. Water slops over giant hydro electric dams, and sheets of flame burn in the air as natural gas is flared off at Oaonui in order to make condensate.

The energy crisis — really, more of a potential crisis — is restricted to one particular sector of industry. Namely, transport.

The immediate shortage is in transport fuels.

It is true that in the short term, the supply problem will deepen. Yet in the medium term and in the long term the outlook is surprisingly bright — as recent reports from the Commission from the Future have indicated.

The energy problem affects only manufacturing, as far as transport fuels are concerned.

But there must be no mistake about it. Even in the transport energy side, the effects on manufacturers are considerable.

Immediately following the Iranian revolution the Conference Lines tacked on a fuel surcharge. More worrying still was the indication of a gradual and not so gradual rise in airfreight costs.

Airfreight has been a crucial factor in New Zealand manufactured exports — and there has been continued worry about its effects.

John Burford, managing-director of Delta Plastics, at Palmerston North, last year was voicing his concern over the likelihood of quantum jumps in airfreight. With 80 per cent of his total output in air-freighted exports, Burford had every right to be worried.

Ex-factory costs are one of the most bafflingly high components of the New Zealand manufacturing economy.

The geography of the nation plus the sparse population inevitably means that these costs are extremely sensitive.

Concern over ex-factory costs extends right through manufacturing. There is no escape from it — and the continuing losses of NZR only compound fears that the entire transport sector is in for a gigantic price upheaval.

The fear is increased by the persistence of industrial stoppages.

Manufacturers are also worried about the Government delay in approving schemes for investment in the production of alternative fuels such as methanol. There is now a definite feeling in the manufacturing sector that the Government is shilly-shallying.

Commented one industrialist: "They should give the go-ahead to anyone who has the money to invest."

The feeling is strong that the time for prevarication is past. Every day that passes with alternative resources brings a true crisis much closer.

Some of the schemes envisaged do not entail the production of diesel. But the feeling is that even if the new processes produce motor spirit, at least the pressure will be taken off diesel supplies.

Rationing of diesel by allocation to suppliers generally has not hit manufacturers. But the fish processing industry in North Auckland has been affected because long-line boat operators have been unable to buy the fuel they need.

The biggest effect of the fuel crisis on manufacturing has been in the field of petrochemicals. PVC the base raw material, has doubled in price since the Iranian revolution and there are no signs of the price slackening.

The presence of most of the world's raw material suppliers in New Zealand has meant that plastics raw materials companies have had to look long term — and they are doing their best to keep local manufacturers supplied.

The energy crisis, it must be noted, coincided with the jump in anti pollution measures by the US administration. The demands for leadless fuel placed an unbearable strain on demands for benzene — a key component of plastics raw materials feedstock.

To a substantial degree the real dangers of today's crisis was averted a decade ago with the switch to natural gas. It is now fashionable to criticise the Government, and even planners, for alleged negligence. But the vast investment and vigorous promotion of natural gas eight to ten years ago has taken the edge off the present emergency.

The Natural Gas Corporation then was able to promote exceptionally competitive bulk purchase rates, and this was a key inducement for North Island companies on the pipeline to turn to the new energy source.

Natural gas has proved an ideal fuel from industry's point of view: clean, highly efficient, and easily managed, without even the need for the heavy storage capacity of bulk oils.

Two other early decisions have been crucial in avoiding the worst effects of the energy crisis as far as in-factory requirements are concerned. The first was the decision after World War II to embark on an extensive network of hydro-electric resources, specially on the Waitaki, and to enhance the Waikato's resources.

Then there was the decision 11 years ago NOT to sell West Coast coal to the Japanese. This was widely criticised at the time — but time has amply justified it. We now have a critical resource locked up in the ground, ready for extraction.

On the international scene, the energy picture is beginning to improve. The decision last month by President Carter to deregulate heavy crudes was vital. The New York Stock Exchange reacted overwhelmingly in favour. Hopefully this will embolden Carter to extend the deregulation to more highly refined fuels and perhaps eventually even to motor spirit.

It is often not realised that the United States is the other key component to the present energy scene. The refusal of the US administration to let fuel prices float on the free market is the main reason behind the endlessly spiralling US fuel consumption.

The US refuses to touch its own vast oil reserves. These are needed for strategic reasons. So the US, since the beginning of this year's crisis, in effect has been on the open market bidding against such nations as New Zealand.

The situation did become absolutely critical two months ago when US buyers began to invade the Rotterdam spot market. This triggered off a catastrophe because the OPEC nations then began to peg their base price to the current spot price.

This in turn pushed up the spot price as buyers twisted and turned to find a new supply. As soon as OPEC heard about a new spot level, up went their own base price.

The recession in the United States is just starting to level off demand for oil. The reaction of the NYSE to the deregulation of heavy crude could encourage Carter to push the deregulation to refined fuel perhaps before the end of the year.

The appointment of fiscal conservative Paul Volcker to the Carter cabinet certainly had a lot to do with the new move. Hopefully, Volcker's influence will become stronger.

At home, the crucial decision is to embark upon a fuel alternative. This will involve the treatment of wood pulp waste into alcohol. It is a remarkably simple process, but in bulk there is understandably a huge investment needed.

What really worries nations such as New Zealand is that the OPEC countries will start a cat and mouse game by toying with the price of oil.

Thus, assuming New Zealand committed perhaps a billion dollars to manufacturing alternative motor fuels, OPEC might decide to cut back the cost of oil to the level at which it might retail here for 80 cents a gallon.

This would render the New Zealand Government's investment virtually useless. Then, as demand for the 80 cents a gallon motor spirit rose, OPEC might start selling it at $2 a gallon, trading on the momentum of re-equipping that people would have to pay that price for a few more months. Then as the synthetic process began OPEC would again drop its oil ... and so on.

This is just one of the reasons why the Government is hesitating. The Government has complete control over the price of oil, of course. It can tax it as much as it wishes — and this would muffle any sick OPEC pricing policy.

But the synthetic fuels investment is so large that the Government is concerned about proceeding on any policy in isolation without regard to the world picture.

In the short term, it seems there is one very bold and unusual move the Government could make to alleviate some of the worst inflationary excesses of the energy crisis. It could order a temporary reduction in the price of electricity for both industrial and domestic use.

In today's climate this would be a deflationary move — and would show up quickly on the marketplace. There is a surplus of electricity and this fact becomes persistently obscured in the face of the overall "energy crisis."

The best way to encourage industry to burn off surplus electricity is to make it more economic in the short term.

It is an obvious move. The Government should have the courage to renege on its draconian increases which appeared to have been made in the face of an expected electricity shortage.

AIRFREIGHT...crucial factor in exports.

Natural reserves will last beyond century's end

WHEN energy meant oil to everyone but a few bicycle-riding scientists and windmill enthusiasts, New Zealand looked like a poor relation at the petrol party.

The country's resources have not changed. But public perception of them has — and there is general recognition that we are at least potentially energy rich, if not yet the "Arabs of the South Pacific" as Dr Colin Maiden (chairman of the NZ Energy Research and Development Committee) has described us.

Although the size of the country's oil reserves, if any, remains unknown and is the subject of investigation both on and off shore, our coal and gas reserves are large by world standards, and huge in terms of our own needs.

Diane Hunt, in "Resources and Technology-Sustainability" produced for the Commission for the Future, describes the size of our reserves in terms that have some meaning for the lay reader. She uses the measure PJ, or petajoule (1000 million million joules). One petajoule is equivalent in energy to 22,000 tonnes of petrol, or one-quarter the annual output of the Wairakei geothermal power station.

Kapuni has recoverable gas-condensate reserves of 430 PJ, says Hunt. The giant Maui field could have gas reserves of 10,000 PJ, while the DSIR Geological survey estimates natural gas still to be discovered may be 2.5 times as much again as Maui.

From Maui, we are committed to take or pay for 170 PJ a year, though that output won't be reached for some years.

An idea of what this means in practical terms can be gained by comparing the output of 170 PJ a year with the 130 PJ of energy now consumed by the total transport fleet of New Zealand.

Depending on how they are managed, our natural gas reserves are therefore large enough to last to the end of the century and beyond, for both reticulation and transport fuel.

Another option, already taken up in respect of the small proportion of Kapuni gas allocated to an ammonia urea plant, is to use gas as a source of materials rather than energy. Plastics production and other petrochemical industries may be in the pipeline for both Kapuni and Maui gas.

The reverberations of the decision on how long our gas reserves should be made to last, when it is finally taken, will be felt throughout the economy, as this will shape the uses to which gas is put.

These large gas reserves are far exceeded by our rich stores of coal. Initial exploration of the eastern Southland coalfield, for example, revealed lignite-in-the-ground with a total energy content equal to that of several Maui gas fields. The DSIR and the Ministry of Energy Mines Division are revising estimates of the total quantity of coal in the country as exploration proceeds, mainly in the Waikato, Otago and Southland areas.

An even bigger question mark hangs over the future use of coal than that of gas. Some of the options are:

- Direct use as an industrial fuel;
- As gas for domestic and industrial use in the South Island;
- Conversion to gasoline, diesel or aviation fuel;
- As a feedstock for plastics and other materials.

The central question is not whether we are rich in non-renewable energy resources, but how to make the best use of them.

We could meet our own needs for synthetic gasoline within a few years, industrialise the economy, and, if we wished, make substantial exports of liquid fuel.

COLIN MAIDEN ... "Arabs of the South Pacific".

"Fossil energy has now the power to become a major driving force in changing the entire structure of New Zealand's economy and with it, the current balance of payments problem . . . short-term decisions may propel New Zealand into high investment and industrialisation based on fossil fuel. But if that is to happen, it should first be proposed as an option, debated, and its trade-offs understood," says the CFF booklet, "Resources and Technology-Sustainability".

The use of fossil fuels should help us "stretch, complement and replace oil" over the next 30 years, according to the New Zealand Institute of Chemistry. But there is general agreement that the long-term aim should be the creation of renewable energy sources, to create a society whose energy use can be sustained indefinitely.

A countdown of renewable resources must start with hydropower, which — together with geothermal power — supplies 90 per cent of New Zealand's current electricity needs. The installed capacity of the two exceeds use by about 30 per cent, and the total potential of hydropower is more than three times the present output of the hydro stations, though this is unlikely ever to be realised.

New Zealand's single geothermal power station at Wairakei has an annual output of 4 PJ, compared with the 63 PJ of the hydro stations. With a second one planned on the Broadlands geothermal field, the total potential for geothermal electricity production could be 25 PJ a year, though full development is unlikely because of the effect on scenic areas.

Geothermal steam can be used also for direct heating either on an industrial scale (as at the Tasman pulp and paper mill) or at the domestic level.

New Zealand could learn to avail itself of at least some of the solar energy available at several hundred times the current total annual energy use. And as one of the windiest countries in the world, with 450 windmills placed strategically around both islands each with a capacity of 1 megawatt, we could generate 10 per cent of our present electricity needs.

The sea is another potential source of power. The waves, according to one estimate, might meet 20 per cent of New Zealand's electricity demand.

Ocean temperature differences and tidal currents are another potential, though unquantified, energy source.

Research is intensifying into the growing of trees and crops for the production of transport fuels. New Zealand has the land and the agricultural expertise to make the switch to alcohol fuels (methanol and ethanol) a logical option as the non-renewable resources are depleted.

If coal and natural gas are used for methanol production to make a methanol-petrol blend which can be used in existing car engines with only minor modifications, the technology can eventually be adapted to produce methanol from wood. Ethanol, however can't be made from fossil fuels, and needs a different type of processing plant.

Made from wood or a crop such as fodder beet, ethanol implies small scale plants, which could be achieved by a progressive build-up of capability, using New Zealand capital and expertise. Methanol production would require larger steps to develop big, centralised plants using imported technology and funds.

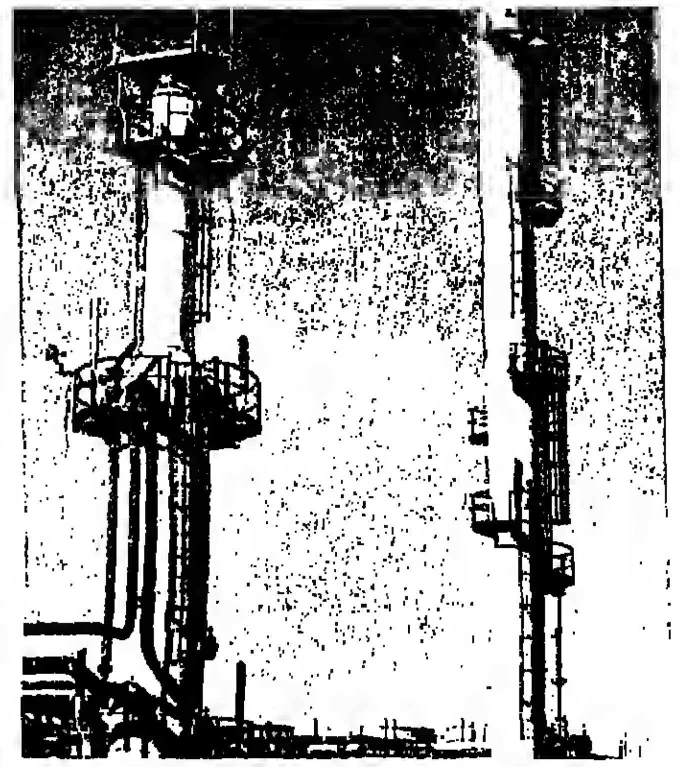
Rubbish is a source of energy not to be overlooked. Each year the country generates enough waste to make feasible the production of steam, boiler fuel, or fuel gas — in Auckland, domestic refuse is already being pelleted for use as a fuel.

Finally, conservation in itself must be regarded as a potential energy source.

The most urgent energy problem — the availability and cost of liquid fuel for transport — revolves around the issue of personal mobility.

Commenting on "Energy Goals and Guidelines", the New Zealand Association of Scientists said that "much of the potential improvement in the energy field will be unobtainable unless there is a dynamic approach to transport itself, not merely transport fuels".

Coercion through high prices for cars and fuel and a revolution in the efficiency and attractiveness of public transport could be combined to make New Zealanders forsake their traditional use of private vehicles and achieve energy savings of some magnitude.



MAUI ON-SHORE INSTALLATION ... plastics production in the pipeline?

Bill Birch sees Maui exploitation as chance for development of skills and technology

A DECADE of expansion, giving New Zealanders the opportunity to develop and eventually export new skills and new technologies — that is the prospect Energy Minister Bill Birch sees ahead as the Maui gas field is exploited.

Birch is the man at the centre of one of the most crucial economic decisions any New Zealand Government has made.

Some decisions have been made. The Maui gas field partners have been told the minimum levels of flow they can expect over the next few years.

As a high priority, the state-owned Natural Gas Corporation is being used to substitute as quickly as possible gas for oil used in industrial plants.

"There is enormous pressure on the Natural Gas Corporation to extend its activities and they are doing a comprehensive report for me now, setting out their immediate, short-term and long-term objectives and the availability of resources," Birch said in a special interview for the energy issue of National Business Review.

"They have my complete support to go for this as hard as they can."

The Government is also "running very hard" at the use of compressed natural gas (CNG) to replace petrol.

And it has decided, despite wariness on the part of the oil companies that liquefied petroleum gas (LPG) should be distributed throughout New Zealand at one price.

But the big decisions have still to be made:

● How fast the gas is to be brought ashore from the mid 1980s on; and

● What liquid fuel options will be chosen to use the gas left over from its use as a premium fuel, CNG and LPG.

Birch: One of the primary decisions is the rate of depletion and our contractual relations with our Maui partners.

You've got to maintain a viable production rate. There is an enormous investment in Maui A — about $450 million — and you've got now to produce sufficient gas from that field to justify the investment.

This is related to the question as to what sort of commitment we are going to make to liquid fuels. And that depends on their cost.

There are about 24 interrelated primary decisions.

There are a range of liquid fuel options which have been canvassed pretty widely.

There is the methanol option, to use it as a fuel extender, at 15 per cent (M15). And if you are going to produce methanol, then one option for the use of methanol is to convert it to synthetic gasoline, using the Mobil process.

Methanol is also an attractive base fuel to be used as an alcohol fuel by itself.

The other possible use for methanol is as an export foreign-exchange earner, in which case you'd export it as a chemical. There is an export market for that. The BP proposal is to produce a very large methanol plant and to use part as M15 and part as export chemical methanol.

Then you come to the synthetic crude options, using the Fischer-Tropsch process, producing a synthetic crude oil which requires further downstream refining into motor gasoline, diesel and other products.

NBR: Do you see the broad decision as being between alcohol-based fuels and synthetic petrol?

Birch: The situation is clear in my mind. Firstly, you need to have a fuel to replace oil, to suit our present fleet.

But we should be looking beyond that because finally we should be producing a fleet that matches the fuel available. I've got no doubt that we will see a whole range of new types of engines developed simply to use different fuels, including the ones that we can produce.

There is no point in going a stage further to produce motor gasoline to suit the fleet that is in use today because that has been developed to suit cheap oil. It is much better to match the engines to the most economic fuels.

Oil is still going to be a bogey, though. The real cost of getting it out of the ground is $2 a barrel and the price of the alcohol fuel is probably $20 a barrel. The Arabs are going to tease us with that for a long, long time.

NBR: What criteria are you bringing to the decision you are going to make on the options? Someone has put it to us that it is essentially self-sufficiency versus profit.

Birch: Well, given that there is going to be X amount of gas available, one has then to seek a balance between maximising economic opportunities and achieving a sufficient degree of security.

The two will not be the same. Any number of these options are really high-cost options. We would be manufacturing the liquid fuels at a much higher cost than we can import the product today.

We would only do that for security reasons. It is a question of how much weight you give to each.

NBR: Are you near a resolution of that?

Birch: It can't be looked at independently of the options.

You've got to know the cost of the options, and the ramifications of each proposal — the questions of distribution, environmental difficulties and so on.

NBR: So you're not yet at the stage of resolving the question of self-sufficiency versus profit?

Birch: No. We've got a lot of information on it. We could make a judgment on it, but there is no point in making a judgment until we get all the information in.

NBR: Is there any ideological tendency which will point you one way or the other? We would expect, for example, the Labour Party to tend towards greater self-sufficiency and the National Party to tend towards greater maximisation.

Birch: It's an area of judgment. If you went for total self-sufficiency you would build in costs in transport and manufacturing that would probably make us uncompetitive in world markets for our other exports.

It's really a question of judgment for today — and of versatility, because the decision you make today may not finally determine what degree of self-sufficiency you've got in 10 years time. One thing that's very important in this decision-making that's going to take place over the next few months is that we want to maintain versatility and the ability to switch directions.

NBR: So the decisions that will be made over the next few months will not lock us into a fixed pattern?

Birch: They will set us on a course, but one capable of slight redirection.

NBR: Slight redirection?

Birch: Some redirection.

NBR: Would you say that that decision, self-sufficiency versus economic cost, is the essential political decision? There are two decisions to make, one economic and one political, aren't there?

Birch: Yes, but they are very much interrelated. They are very much the one decision, I think.

You cannot make a decision to achieve 100 per cent self-sufficiency. You really have to set your targets and you can increase or lower those targets depending on how much you want to sell.

One of the options we must build into our decisions is the ability to be versatile in what we do with our products.

It's important that we don't just shut ourselves out of the world markets because we want self-sufficiency; but at the same time it is important to ensure that if we get an interruption in our supply we are not going to put ourselves in a siege position, as a consequence.

NBR: Is one of the suggestions that you have made to the oil companies a guarantee of supply in return for permission for them to go ahead with their proposals?

Birch: It's one of the considerations. What they're doing at the moment is supplying us with X tonnes of oil a year.

Clearly the growth in our economy is going to be built on our indigenous supplies. If the economy grows, then energy production must grow.

About two-thirds of economic growth is energy. We've got to make sure we achieve our growth from indigenous energy.

At the same time we want to hold on to the imports we are getting and one of the questions that we have got to resolve in our negotiations is whether we can hold on to the security of our supply while we replace part of it with local production. We may not need it but we want to know it is there if we want it.

It is not expected that the productions will decrease [illegible] fuel, they are expected to increase.

In the New Zealand situation, what we are saying is that we want to get the increase in growth, the increase in energy supplies that will support that growth internally and there is no question that we will get it.

So we shouldn't have any difficulty in holding on to the security of the allocations we are now getting.

NBR: What do you see as Petrocorp's role?

Birch: Petrocorp's role is primarily as a catalyst and in some cases it will be the [illegible] that the Government will [illegible] for initial implementation — and I stress initial — because it's a matter of great urgency that we get on with the job.

Obviously something that Petrocorp will be able to do is to bring together packages to start construction and let contracts and so on, some of the decisions as to the operation and ownership being decided while the thing is being built.

We don't want to delay the start of construction. Once the decision's been made we have to get on and get construction going. Delay in completion of liquid fuel plants will cost this country very dearly.

So Petrocorp may play a role in the initial stages in getting projects going. But I believe the Government would draw back from [illegible] involvement if there is satisfactory private sector substitution.

NBR: Do you see it as a competitor, as one of the companies competing for a slice of the action?

Birch: No, not really. It's likely that Petrocorp will have a say in all of the slices of the action.

The Government, dealing with a resource like Maui, needs to be on the inside of the particular operation, particularly involving multinational companies, overseas companies for marketing reasons, and so on.

The Government would want to be involved, to be part of the decision-making process on prices, production and so on. Petrocorp will be playing that role for the Government.

In addition, it may be involved as an operator and a company in its own right, if we can't get satisfactory private sector substitution.

NBR: But there is no question, for instance, of Petrocorp owning and operating a methanol plant instead of a private company?

Birch: Only if it is by default.

NBR: Yet they have seemed over the past few months to be setting themselves up as an alternative.

Birch: You are asking for my opinion as to how I see Petrocorp going. I believe I am expressing the Government's view on it.

But one has to have regard for the fact that the directors would have their own views. I don't think we are too far apart.

There's certainly nothing wrong with the Petrocorp staff and officials looking at it from that point of view, because they may have to play that initial role. It's very important to know where they are going.

In fact they may have to play that final role, if it is impossible to involve the private sector on a reasonable basis.

The important thing from the Government's point of view — as with the sale of natural gas to replace oil — is to do it, because of the foreign exchange benefits that accrue immediately from the substitution.

The same goes for the liquid fuel products. There is immediate benefit. The main thing is to get on and do it.

While we are implementing it, we can bring together some of the ownerships and investments. It is likely to be involved in part ownership in most of these.

NBR: Will the decision you are going to make in the next few months be a total decision or will it be made in stages?

Birch: I would expect some initial commitment which would include the establishment of plants.

But it's not likely to be a total package. There will be still room for further selection of options in some areas.

We will probably not be far enough advanced to be able to say, yes we will build a Sasol plant of one sort or another.

We would probably not be in a position to say, let's proceed with the Mobil plant, without looking a little bit closer at some of the ramifications of it.

But we could make some firm decisions and we could commit some to further investigation.

We want to know substantially what quantity of gas we are going to use, what rate we are going to use it at and for what general purposes we are going to use it and to get some of that implemented without delay.

NBR: But these other decisions are going to have to be resolved within the next couple of years?

Birch: Yes.

NBR: Well before the 1981 election?

Birch: Yes.

NBR: How do you propose to ensure environmental considerations are included?

Birch: Well, we are looking at the agony that the Waimate West County Council is going through in trying to deal with the ammonia-urea plant. Clearly it points to the need for a different approach to environmental and planning questions.

NBR: This is Barry Brill's idea for the Planning Tribunal handling it?

Birch: Well, not entirely. We are having discussions in Government as to whether there are some ways of providing a system that produces less delays, while not denying the public the right to participate.

There is potential for bringing together the various types of applications into a single application.

The water and soil rights, the environmental impact procedures, town and country planning procedures, they all generally end up with the Planning Tribunal anyway.

Is it not better to bring them together in front of the Planning Tribunal and argue the various aspects out there? There seems to be some support for that idea.

There is a case for streamlining and bringing together the various elements of the statutory procedures. That is not to eliminate the rights of the parties to participate. We want them to participate, but without causing unnecessary delays.

NBR: There is going to be a big electricity surplus over the next few years. Have you considered shutting down Clutha to provide investment capital for the liquid fuels plants?

Birch: No, it's important that we plan well ahead in our lean times. One cannot be certain of surpluses or shortages of electricity.

It's important not to make dramatic changes in this area, so that people can plan with some certainty. The Government is committed to the Clutha scheme.

What we can do is stretch out the construction phase. There is obviously no need to meet early construction dates, or commissioning dates. So we have got a little bit of flexibility there.

But my prediction is that the 1980s are going to be a very expansive decade in terms of economic growth in New Zealand.

I, as Minister of National Development, am looking at a number of projects. We are determined to achieve modest rates of economic growth over and above inflation.

So we are going to need to produce electrical energy in one form or another.

BILL BIRCH . . . economic and political decisions "interrelated."

Producing energy the cockie way: farming it

A REPORT on another alternative to curb reliance on fossil fuels says all of New Zealand's future transport needs could be provided from energy farming — providing about one million hectares of land were allocated for that purpose.

The Energy Research and Development Committee recommends the construction and operation of three processing plants.

Two would be small-scale experimental plants — one to produce ethanol from crops in the South Island, the other related to methanol production from wood in the North Island.

The third plant, located in the South Island, would be commercial, using about 200 dry tonnes of fodder beet a day to produce ethanol. This would produce about one per cent of New Zealand's gasoline requirements. The plant would cost between five and 10 million dollars.

The committee's report, "The Potential of Energy Farming for Transport Fuels in New Zealand", deals with the respective merits of various crops and the development of energy forests.

The report considers hardwoods such as eucalypts as an energy source. But the softwood radiata pine is the "leading contender".

To rely wholly on radiata pine energy forests to satisfy New Zealand's transport fuel needs in 1995 would require 1.4 to 2.4 million hectares, two to three times the present exotic forest cover.

Sawmill residues, forest residues and low grade logs are financially more attractive than energy forests. But the difficulty is in obtaining enough of this residue, the report says.

Agricultural crops are produced for human nutrition. But it is a logical extension of this use to process them for transport fuels, it argues.

All feedstock produced in New Zealand is attractive in terms of energy yield and processing with perhaps fodder beet the most attractive.

Fodder beet has the highest yield of fermentable sugars and, along with oats, has a low delivery cost.

But fodder beet would involve a five-year rotation. And because of the difficulties in obtaining high sugar yields in frost-free area, its production would be restricted to the South Island.

Two types of processing are suggested to convert the biomass into automotive fuel:

● Fermentation, which would be favoured in the early stages because of our experience with this process (brewing, wine-making, sewage treatment). Ethanol and methane would be produced from crops with relatively high sugar yields.

● Gasification, involving high temperatures and pressures, could produce methane, hydrogen and methanol with crops of a lower sugar content, and would involve larger scale processing.

The report considers the main environmental concern to be the commitment of large areas of land for the production of the transport fuel crops.

Waste products from processing such as heat, carbon dioxide and gases containing nitrogen and sulphur would have to be disposed of as well as leaching and groundwater contamination caused by large-scale landfill disposal in the gasification process.

Economically, the biggest constraint on the implementation of energy farming will be the cost of the biomass delivered to the factory. Processing costs in turn will be dependent on the cost of the feedstock.

The land required for energy farming would be only a fraction of the present area under cultivation.

A Waikato case study gives an indication — albeit a rough one — on the likely effects of energy farming.

Maize growing has been carried out in the Waikato since 1966.

Developments of ethanol plants to process the maize would drastically affect end-users and maize prices and so energy farming based on maize could only proceed if there were new areas cropped.

The greatest social effect would be to increase the population of small rural towns.

The report notes that farmers and people associated with the farming industry are receptive to the idea of energy farming, although some financial incentive for feedstock planting may be required in the initial stages.

The development of fuels from the biomass is seen initially as complementary to the use of Maui gas in the transport sector and, long term, as replacing such use of natural gas.

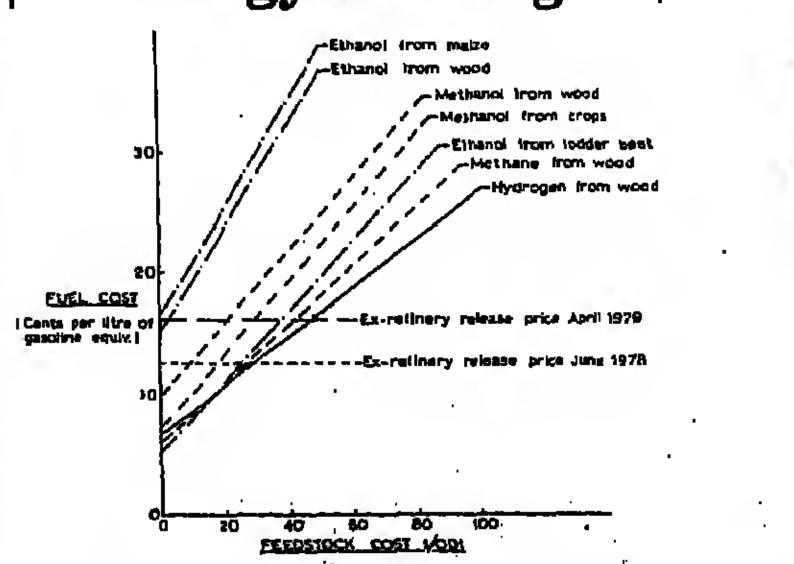
The report cautions that it will be many years before significant quantities of transport fuels are produced from these sources.

Interest in the farming idea, specially from farmers, indicates support, although an immediate start should be made for energy farming to become a major contributor of transport fuels in the 1990s.

The report estimates that the cost of processing these fuels crops would be up to 50 per cent more than the ex-refinery costs of gasoline, although with fuel crops we could save $2 of foreign exchange for every $1 of foreign exchange earnings.

"Energy farming is one alternative source which offers New Zealand a much more secure source of transport fuel at a cost which is less dependent on international politics and other factors beyond our control", the report concludes.

Cost of fuels from energy farming



Hopes of oil high in Taranaki since 1866

EVEN before the English settled in Taranaki, sailors had seen oil floating on the sea near the Sugar Loaves and other parts of the coast.

Local Maoris were aware of the presence of oil; they believed that a submerged reef named Seal Rock was once an island of bituminous matter which had been set on fire by the gods and burned to sea level.

New Plymouth's first settlers had only to disturb stones on Ngamotu Beach to find small deposits of oil.

In 1865, the Taranaki Provincial Council granted Messrs Carter, Scott, Smith and Ross a prospecting lease on 50 acres of the Sugar Loaves Reserve. News of an oil strike was heard by the people of New Plymouth in January 1866.

With the shaft down to about 20 feet, so much gas was coming up that work was impossible until a wind-sail had been erected for ventilation.

Hopes of oil riches were high, and the Provincial Treasurer referred in his February financial statement to "the sanguine hope entertained of the discovery of the natural reservoir of petroleum that oozes out of the Sugar Loaves".

In March, the Taranaki Herald reported that Carter, Scott, Smith and Ross had found the "genuine oil," at a depth of sixty feet.

PETROCORP RIG IN TARANAKI...great expectations date back more than 100 years.

But the great expectations of the early years were not realised. A novel of the time, "Tikera", or "Children of the Queen of Oceania", written by Sygurd Wisniowski and translated only recently from the Polish gives colourful documentation of the oil fever rife in Taranaki in the 1860s.

"The permanent town garrison — played at soldiers every morning and in the afternoons occupied their time profitably speculating in oil — a kind of open-air stock market in mining shares took place here each day. Shares rose higher with every foot of greasy soil, or dropped when the drill brought up oil free samples."

In a later episode, the overseer of an "oil field" drenches his well with bottled crude oil every night, and sells off shares at a handsome profit to crowds of speculators during the day.

Of the many wells sunk in the Paritutu-Moturoa area, and as far afield as Inglewood, none yielded oil in commercially significant quantities. But Taranaki "pioneered the first oil field in the British Empire — and the Alpha Well, begun in 1866, was put down only seven years after the sinking of the well that began the petroleum industry in the United States." (The Weekly News, March 15, 1961.)

Alpha was the first of many seeming successes to be followed by disappointments.

The Weekly News describes an "excited spate of share trading just before the first World War," and another rush of drilling exploration by various companies in the late 1920s and early 30s. "...some 40 or 50 wells were drilled, from Uruti to Omata, and Moturoa had most of them."

Over the years, until 1973, companies mainly in the Moturoa area produced gas and small amounts of crude oil from shallow wells.

Until 1954, the gas was unharnessed, but the oil was refined and marketed mostly around New Plymouth.

The last well was abandoned in 1973, and the only remaining company, Taranaki Oil and Gas Ltd, stopped refining in 1975.

After the passing of the Petroleum Act in 1937, the Government issued licences for prospecting.

The main efforts in petroleum exploration have been in three sedimentary basins — Taranaki-Wanganui; the East Coast of the North Island; and the West Coast of the South Island.

Prospecting began in the Gisborne area around 1874, and at Kotuku on the West Coast in 1901. There has been a certain amount of random drilling in other areas, among them Northland, Waikato, Canterbury and Southland.

By 1970, more than two hundred wells had been drilled, both on and off shore, but exploration and drilling were sporadic until the discovery of the gas and condensate field at Kapuni (1959-62).

In 1951, the Government hired geologists Dr E Lehner and R J L Stephens to survey all the geological information gathered by the various oil exploration companies. They came to the pessimistic conclusion "that New Zealand cannot be considered a potential major oil country, and that no further large-scale exploration can expect to change the outlook materially, or is even likely to result in discoveries large enough to pay its costs".

But only a few years later, another geologist, C A E O'Brien, rated the Taranaki region one of exceptional promise — prophetic words, in the light of subsequent events.

The discovery of oil in Australia in 1953 revived interest in New Zealand, and several local syndicates began prospecting operations at that time.

In 1955 and 1956, Todd Bros. Ltd, which held 47 prospecting licences, entered into agreements with Shell Oil New Zealand Ltd, and BP (Oil Exploration) of New Zealand Ltd, enabling a systematic prospecting programme to be undertaken for the first time.

The Kapuni gas field remains the only significant on-shore petroleum accumulation discovered in this country. The No. 1 well was spudded in by Shell BP and Todd Oil Services Ltd during January 1959, and by the end of 1962, three more wells had been drilled.

After the commercial potential in natural gas and condensate had been established, final agreement between the producers and the Government for sale and purchase of the gas were reached in April 1967.

When the Continental Shelf Act was passed in 1964, the way was clear for petroleum exploration of New Zealand's continental shelf beyond the territorial limits. Extensive activity began, and since then licences have been held virtually all over the Continental Shelf (mostly with disappointing results).

The discovery of the Maui field in 1969 capped a long history of oil exploration. Shell BP and Todd Oil Services Ltd spudded-in Maui I in January 1969 four years after getting a prospecting licence covering 11,030 square miles of the continental shelf in the

WARREN FREER ... presented White Paper on Maui.

Taranaki Bight.

The drilling of Maui II and Maui III some months later showed that Maui was among the largest single continuous gas fields then discovered. Three years of negotiations followed between the Government and Shell BP Todd before the deed establishing the Maui joint venture was executed on October 1, 1973.

Soon after, Warren Freer, then Minister of Energy Resources, presented the White Paper, "Development of the Maui Gas Field," which contained the major agreements made in connection with the joint venture and laid out the prospects for development.

A document of 316 pages, the White Paper stands in sharp contrast to the simple approval granted to Messrs Carter, Scott, Smith and Ross in 1866, giving them "the use of the land for the purpose of prospecting for and working petroleum only, and not in such a manner as to interfere with the use of the land by the Government for other purposes".

A century after Alpha, Warren Freer described Maui as "the largest single undertaking ever entered into by the State in the history of New Zealand. It has added significance that it comes at a time when New Zealand has to make crucial decisions on how its future energy requirements are to be met."

Since Maui, extensive prospecting on and off shore has not been fruitful.

W George, general manager of BP Oil Exploration, said a few years ago: "One cannot say New Zealand is devoid of prospects, but the bulk of the New Zealand land area has been very disappointing ... It is only in the Taranaki region that things have come together."

The Government has now made moves to attract private companies, frozen off by a tough taxation regime, back into oil exploration, which has recently dwindled to the activities of the State-owned company, Petrocorp Exploration.

The Shell BP Todd consortium now wants to join forces with Petrocorp in an on-shore exploration venture in Taranaki — the site of the consortium's previous successes, but an area in which it has not drilled for 14 years.

The lobbyists: self-sufficiency v profit

THE basic question the Government faces in exploiting the Maui gas field for liquid fuels is one of self-sufficiency versus profit.

Within that decision there are many subsidiary decisions—all fertile ground for lobbying.

At one end are the oil companies — huge multinationals which could buy and sell New Zealand.

At the other are the no-growth conservationists, skilled in techniques of holding up industrial development through the planning process.

In the middle is the apparatus of the state—the Cabinet, the backbench Government MPs, the four key Government departments and their offshoot, the Liquid Fuels Trust Board, and the state energy company, Petrocorp.

Cutting across the field is an ideological argument—the state versus private enterprise.

On one side of this debate are the private enterprise purists who question if we need something like Petrocorp at all. On the other are the nationalists, who are suspicious of the power and motives of the oil giants, on whom we depend critically for at least the next five years.

This dependence on external sources of energy—brought home to us in 1974 and again early this year when Iran turned off the taps—encourages a yearning for self-sufficiency, the replacement of imported fuels with indigenous fuels based on Maui gas.

Self-sufficiency appeals to Opposition leader Bill Rowling. Prime Minister Robert Muldoon is said also to lean toward this side of the political choice.

The border-line private enterprisers in the Cabinet lean toward the profit side. Since they have the numbers on the powerful Cabinet economic committee, they may carry the day.

In the interview on page , for example, Energy Minister Bill Birch talks more of indigenous energy providing the additional fuel for economic growth than of its replacing imported sources of fuel.

There are good reasons for taking this risk.

One, as John Cook, of Treasury points out, is cost. Self-sufficiency will mean our fuel will cost more per unit than if we import it.

Economies of scale suggest we would be best off economically if we exported Maui production in one form in return for oil imports.

Lower fuel costs would encourage faster growth overall in the economy, with greater benefits—provided we could be sure of continued imported supplies.

A limited range of uses of Maui gas would also appeal to the oil companies, because then they are likely to get bigger slices of the action.

Broadly, the three companies have put up three suggestions.

BP wants to build a 2500-tonnes-a-day methanol plant. Mobil wants to build three 2000-tonne plants as a basis for a synthetic gasoline plant, to prove its test-bench process and enhance its chances of winning enormous contracts in the United States to exploit coal. Shell wants to export LNG.

Each has lobbied differently, but primarily they have aimed their efforts at the politicians—ministers, of course, but also backbenchers, particularly on the Government side—and the public, through corporate advertising and image-projection.

There is little evidence of direct pressure being applied to individual departmental officials or blandishments being offered them.

But the pressure has been felt by the Liquid Fuels Trust Board, the body which has been studying the feasibility and cost of the liquid fuel options.

One of its members, Trade and Industry Department assistant secretary Bill Falconer, says life on the board has been like life in a goldfish bowl.

Of the three oil giants, the most active has been BP. Shell has put in its bid for the late 1980s and largely left it at that. Mobil has been very low-key.

BP, has been more of a "hustler" in its approach, according to another source.

Behind all the companies' approach is the unspoken (though at times quietly whispered) threat that if they are shut out of the Maui action, their interest in New Zealand—and thus their interest in supplying oil to New Zealand over the next critical half-decade or more—might diminish.

The stakes are therefore high.

Anticipating this, former Energy Minister George Gair created Petrocorp as a backstop in 1977.

Petrocorp is a state energy conglomerate, with a string of subsidiaries involved in exploration, exploitation and distribution of gas.

It was told by Gair to think and act commercially. And it has, to the point where it has produced its own plans for the use of Maui gas and lobbied the Government to implement them.

Petrocorp's high profile has opened the door for another set of lobbyists—methanol plant builders, bidding for the chance to build such a plant if BP doesn't get the nod.

Petrocorp has proposed a methanol plant built on a turnkey basis for itself or a New Zealand consortium.

As part of its lobbying, Petrocorp went direct to Muldoon in May.

Once it might have expected to find a sympathetic ear—and Muldoon is said even now to lean towards Petrocorp's approach more than his colleagues (or, at least, is more suspicious of the overseas oil companies).

But elsewhere in the Government, there has been a mini-revolution. State activity is out and private enterprise in Petrocorp is state activity and run by former state servants, Jim Hogg and Robin Goode. In today's climate, in the eyes of many in the party, that is tantamount to disqualification.

Some would like to see Petrocorp kept right out.

Others want its role strictly limited—to getting projects off the ground when private enterprise cannot or will not; and to taking up New Zealand shareholdings until the public subscribes.

There are a number of different viewpoints lined up along this spectrum, too.

Treasury, for instance, seems to envisage a slightly wider potential role for Petrocorp than Birch (see interviews elsewhere).

Some observers close to the scene claim to see signs of partisanship by the departments; the Treasury for Petrocorp and Trade and Industry for the foreign oil companies. This is hotly denied by both Cook and Falconer.

Some observers claim to see differences of approach between the two departments.

JOHN COOK . . . self-sufficiency means fuel will cost more.

GEORGE GAIR . . . created Petrocorp as backstop.

Treasury is said to be more cautious than Trade and Industry, which one observer describes as taking a narrow industrial development line of selling the gas off to the highest bidder.

Some readers may see evidence of this in the interview with Falconer.

But again, both Cook and Falconer deny a rift. Falconer says he brings an open mind to the issue.

The differences may be smaller than our informant suggests. For one, the atmosphere is highly charged, which heightens perceptions; for another, as numerous people insist, the situation is "highly fluid" and it is not easy to identify who stands where with any certainty.

In any case, these two departments are important to the eventual decision. They make up half the energy steering group of officials which serves the Cabinet economic committee (CEC) when it considers energy matters.

The other two are the Ministry of Energy, very much the junior partner despite its name, and the Prime Minister's Department, which must now be considered one of the senior departments.

The CEC contains most of the key ministers—all of the key ministers in economic portfolios.

(A separate Cabinet energy committee was not set up, one insider suggests, because logically it would have included all CEC members except Agriculture Minister Duncan MacIntyre and Labour Minister Jim Bolger. Their places would have been taken by Transport Minister Colin McLachlan and Works Minister Bill Young—not an attractive substitution.)

Because of the complexity of the decisions—some 5 interrelated and interdependent primary questions—and because of the high-powered nature of the CEC, the effective decision will be taken there.

Possibly it will be taken by an even smaller group—Birch, his undersecretary, Barry Brill, and Deputy Finance Minister Hugh Templeton, who are closest to the issue, plus Muldoon.

But neither they nor the CEC would be game to move without the formal approval of the backbench (caucus) energy committee.

The committee has been used as a sounding board for acceptability of ministerial thinking in the party and to broaden the range of minds brought to bear on the official advice.

This gives Birch and Brill the inside running in any dispute with Muldoon—particularly if they maintain their pressure for an urgent decision.

They are said to be impatient with the civil servants for not producing firm recommendations. There are suspicions that the civil servants are ducking the issue, and the fact that the Treasury has simply been feeding all the available options is cited.

Not so, the officials counter. They point to a recent report which went some way towards a recommendation.

But, they also say, they will not be stampeded into a premature recommendation.

Both Treasury and the Prime Minister's Department are understood to have argued for less haste—and Muldoon, who heads both departments, is said to agree with them.

One factor in this debate is the oil companies' pressure to keep the gas price—or prices, since a separate price will be set for each project—low.

The longer the decision takes, the more likely it is that the Government will be able to resist that pressure.

This article has concentrated on the economic aspects of the Maui gas decisions, because these aspects are uppermost in the Government's mind.

But there are other lobbies, concerned with conservation and the environment.

Both Birch and his predecessor, Gair, seem to be adopting a sort of "grin-em-down" approach to these groups.

Gair started a dialogue with previously hostile environment groups that Birch has been prepared to continue. He recently gave them a whole morning.

The reason is simple. It is not that ministers have been smitten with a conversion to the conservation lobby's way of thinking. It is that these groups could delay liquid fuels and petrochemicals projects by years if they chose to fight them through the planning procedure.

An example is the mess the ammonia-urea project has got into—a project its supporters claim will not disrupt the environment.

The Government is not in the mood to let the same happen to other gas-processing plants, which it thinks are urgently needed.

For that reason, as Birch says in the interview on page , it is considering holding all planning approval hearings simultaneously before one body.

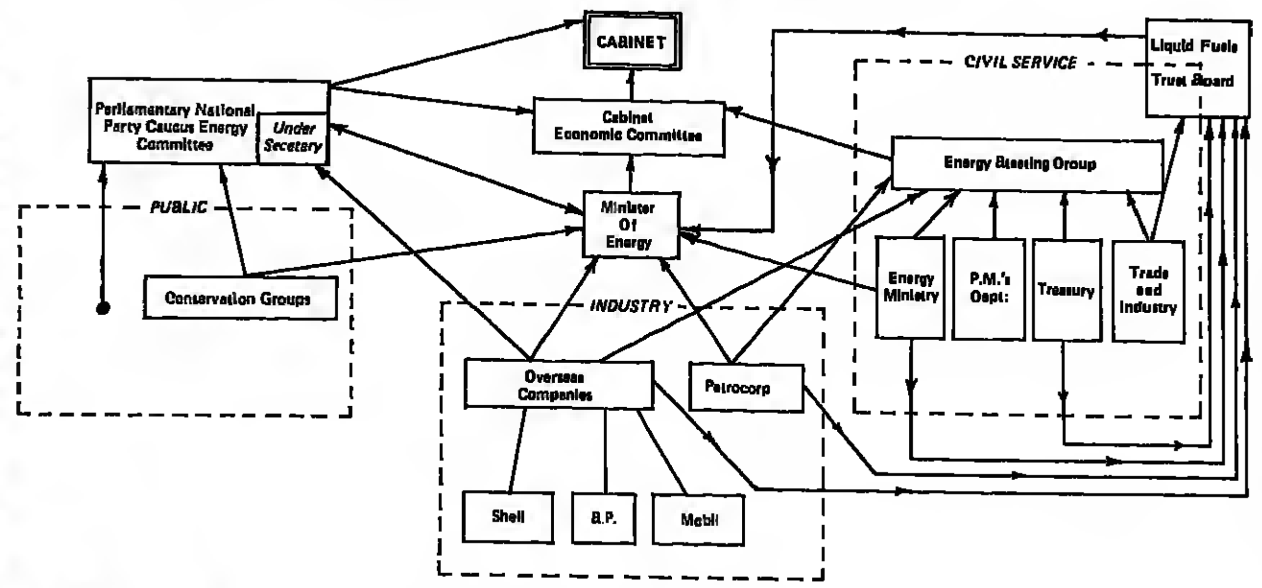
Given the urgency surrounding the Government's approach to liquid fuels development, this seems likely.

SEVERAL times in the accompanying article, references are made to what NBR understands to be the Prime Minister's attitude to various points.

Colin James sought an interview with the Prime Minister "on the broad picture of energy development in New Zealand over the next decade, its economic and political impact and implications". This interview could have clarified the Prime Minister's attitudes, for which NBR is dependent on secondary sources close to him.

The Prime Minister declined.

THE DECISION-MAKING ARENA



Gas: T and I now open minded

ONCE upon a time the Trade and Industry Department would have automatically thought a gas field was for hoarding.

Those were the days of import substitution, of fortress New Zealand determined never again to expose itself to the shocks of world recession.

Gas would have been for getting us off the oil hook.

Times have changed. Now the department is bolder than its supposedly free enterprise Minister, Lance Adams-Schneider, in freeing up import licensing.

Also, within the past year, in concert with the Treasury, the department has been involved in studies to identify "inefficient" industries and to evaluate closer economic ties with Australia.

In the gas business it has been supervising consultancy contracts — among them a study of the export potential of methanol derived from gas.

The fortress New Zealand attitude which bred deep freeze minds has given way to a more open mind — at the very time when the shocks of 1973 and this year's Iranian revolution might have been expected to send the department scurrying for the protectionist bunker.

Assistant secretary for industrial development Bill Falconer insists that the criterion by which he is operating is the "optimum use of the gas".

Falconer is the department's key man in energy decision-making, being a member of the Liquid Fuels Trust Board and the energy steering group of officials. He heads the department's internal energy unit.

His department is involved in the gas decisions because of its overall responsibility for industrial development.

In the case of energy, this can be looked at in two related ways.

One is the use of energy as a fuel for industrial projects.

Of electricity, Falconer says: "Departmentally, we are known to be supporting the export of electricity — that is, setting up export industries using electricity."

With gas the opportunities are wider. They include the export of gas itself in processed form.

Falconer says he doesn't have any preconceptions as to how the gas should be exploited or who should exploit it.

"Departmentally, we look on it as a resource from which we want the maximum return," he says.

"The question is whether we use the resource directly, or export it to import another one."

This, in essence, is the self-sufficiency versus profit argument. Falconer says the department has an open mind as to where on that spectrum the final decision should fall.

"We want to find the evident sensible national solution," he says.

However, the emphasis on industrial development inherent in the department's sectional role has suggested to some observers that it leans toward the overseas oil companies, at the expense of New Zealand's own State-owned company, Petrocorp.

Falconer denies this.

"Personally, I treat Petrocorp as another bidder," he says.

"Its exact role will be determined by the reconciliation of a number of factors."

These included: entrepreneurial responsibility for the gas projects; finance; obtaining technical and marketing expertise; and ensuring the retention of benefits from the development in New Zealand (possibly through New Zealand involvement).

For several decades the Trade and Industry Department has worked closely with the manufacturing industries — often the voice of manufacturing inside the Government machine.

Have manufacturers been involved in the current auction, lobbying for use of the gas in such a way as to enhance their future most?

No, says Falconer. They have not been involved at all, with two exceptions.

One is that a compressed natural gas (CNG) committee, set up a couple of months ago to supervise the implementation of the gas in CNG form, has had discussions with car component manufacturers about conversion kits.

The other is that construction companies have been beating a path around New Zealand, seeking a bit of the action when it comes to building the plants and pipelines.

The oil majors in NZ: a retail story of tight control by Govt

SINCE the Government first sought to control petrol retailing in 1933, business in New Zealand has slowly lost its attraction for the oil majors which operate here.

Profit margins are strictly controlled — a factor that has allowed motorists to enjoy comparatively cheap petrol for so long.

The companies, in various guises, have been operating in this country since the 1890s.

Mobil was the first to bring its products down under, marketing kerosene and other mineral oils under the name Vacuum Oil (then part of the Rockefeller Standard Oil Group).

Shell arrived soon after, selling its products through the British Imperial Oil Company.

Atlantic started business in 1928. In 1931 the company was taken over by Standard Oil of New Jersey and eventually became part of the Mobil group.

BP was a latecomer, starting operations in partnership with the Government in 1949. The Government held a 51 per cent stake for six years until it was sold back to BP at par by National.

For 40 years, New Zealand had its own independent distributor, Europa.

Born out of frustration and what many considered to be profiteering by the oil majors, Europa traded under various names until 1972 when it was sold to BP.

During the Depression of the 1930's New Zealand was at the pricing mercy of the oil companies which were interested only in boosting gallonage by securing as many outlets as possible.

Retailers were propped up until they were too broke to survive. Then the oil companies pulled up pumps and found another operator with a little capital and a desire "to give it a go".

The Department of Industries and Commerce described the business as chaotic. But it got little co-operation from the oil companies and none from the Forbes Government.

To counter the overseas stranglehold, the Associated Motorists Petrol Company Ltd was formed in 1932.

Charles Todd, its founder, had obtained the franchise for Russian oil and in 1933 the first tanker arrived.

By 1935 it had captured 10 per cent of the market.

Europa's arrival unleashed a fierce reaction from the "seven sisters," (as the international oil cartel has been dubbed). Prices were slashed in a bid to drive Europa from the market.

In 1933, the company appealed to the Government for protection. Parliament's Petitions Committee investigated and did not like what it found.

The companies — apart from Europa — refused to give evidence.

The committee reported that the oil companies had cut prices below an economic level since Europa began business, and if they succeeded in their aim, competition would be destroyed and higher prices would result.

After a one-sided debate in Parliament, the Government brought down the Motor Spirits (Regulation of Prices) bill.

Europa blossomed. In 1935 it declared a dividend of 35 per cent on its ordinary shares and a 10 per cent dividend on preference shares.

Its profits were in marked contrast to the retailers plight, encouraging the Government to bring down further controls.

Michael Savage, as Leader of the Opposition, had said it was time for Parliament to become the master and to stop the oil companies fleecing the country and Government.

As Prime Minister he sought to control the sale of motor spirits through Industrial Efficiency Act.

Control has existed since.

Profit margins are fixed from the time crude is pumped on board a tanker in the Middle East until it reaches the motorist.

The Government's powers are such that it can refuse to accept oil into the Marsden Point refinery at what it considers an inflated price unless the supplier is prepared to accept the "loss".

For the companies, there is little scope for big profits in such a rigid environment, especially as the number of outlets they may directly own is limited.

All own a share in the New Zealand Refining Co. Ltd in approximate proportion to their market strength in 1961, when the company was registered.

The public has a 50 per cent share of the 24 million $1 shares.

BP, including Europa, has the largest holding (5,877,714 shares). Mobil has 4,608,000, Shell 4,114,284 and Caltex 2,057,144.

Shell International provides the technical expertise and advisory services for an annual fee necessary to operate the refinery.

The Government, through the Department of Trade and Industry, controls the processing margin.

As the directors' report noted for the 1978 year, however, fees were initially fixed at 77 cents a barrel for the year, "but later increased to 81.48 cents a barrel when it was apparent that throughput was likely to fall below the estimated level".

In 1978 the company capitalised $12 million from reserves, leaving a balance of $45 million as undivided profits or reserves.

Dividends have varied little in recent years. Usually they are about 12.5 per cent, though in 1977 they were 14 per cent and for 1978 7.5 per cent — an effective 15 per cent on the old share capital.

Nominally, each company owns the oil put through the refinery but in practice, petrol, diesel and other products are delivered to common storage dumps around the country as needed.

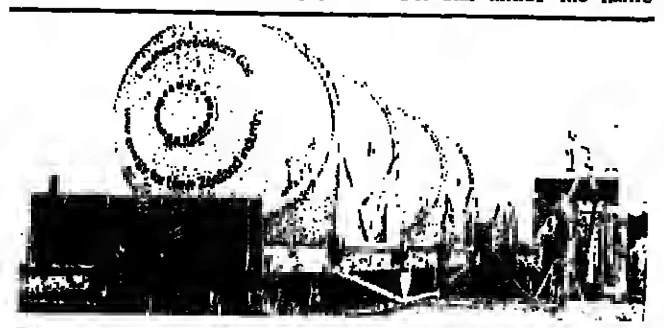
The co-operation among the companies extends even to delivering to each other's customers as and when the need arises.

For distributing products, the four companies plus Europa and Atlantic are allowed a 12½ per cent margin.

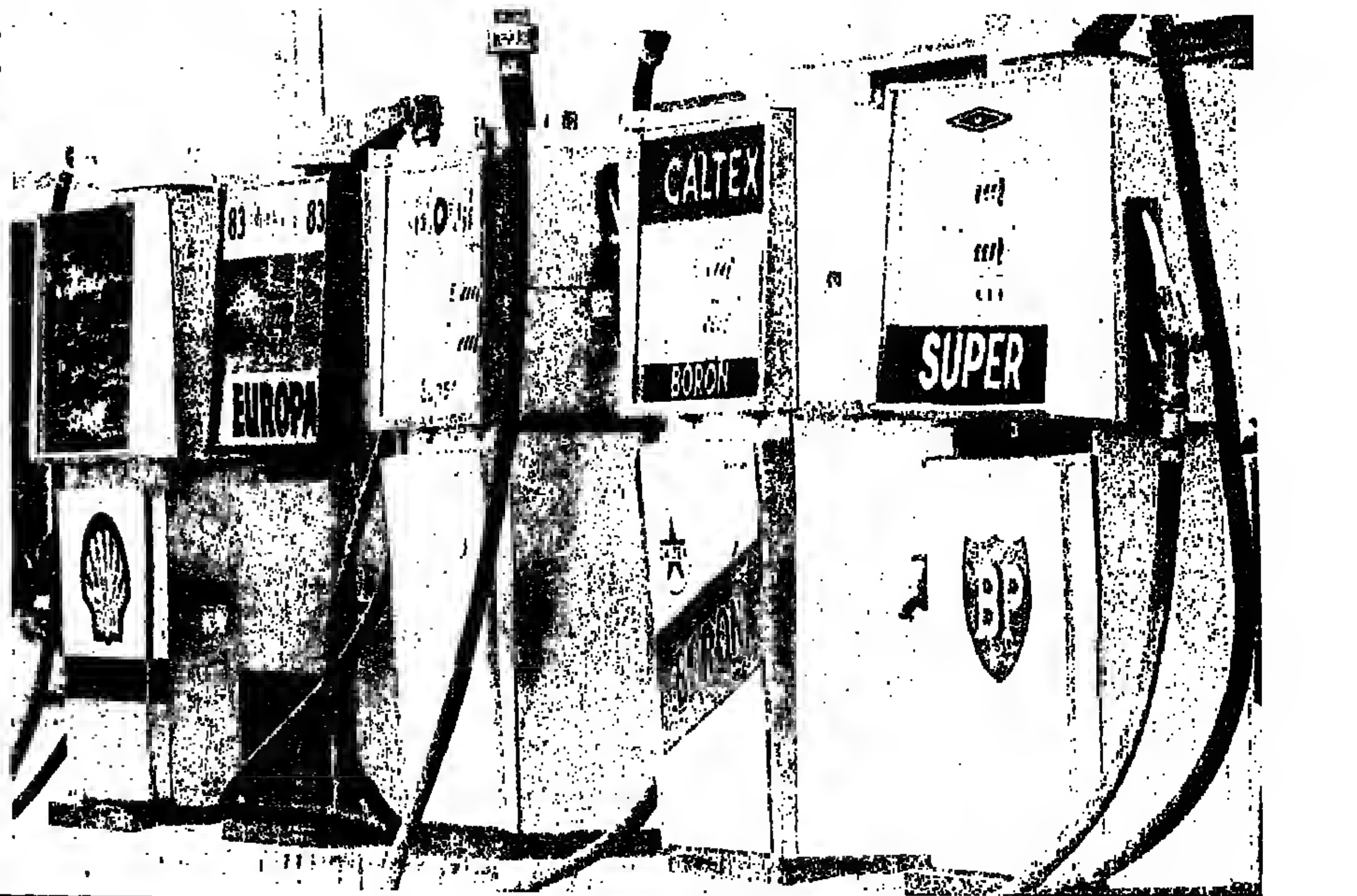
Service station margins are similarly controlled.

Pump prices are controlled directly by the Government through the motor spirit pool account. Petrol leaving the refinery is costed into the pool, a wholesale margin added, taxes included, and finally the retail margin fixed, giving the pump price.

When the pool runs at a loss, or seems certain to run into the red, the price goes up.



RAIL tanks being filled for delivery with propane at the Shell, BP and Todd rail siding at Kapuni.



OPEC took power from the 'sisters'

SEVEN sister companies controlled the oil markets of the world until the advent of OPEC.

They are the oil companies of Exxon, Mobil, Socal, Gulf, Texaco, Shell and BP — the oil giants whose skyscrapers grace the skylines of Pittsburgh, San Francisco and London.

The decisions made inside these buildings affect not only the companies, but also the countries of the world.

The financial and political power toted by the seven companies was brought about by the discovery of that greasy black fluid, — oil — in Pennsylvania in 1859.

In the days before income tax was invented, John D. Rockefeller was taking the chances that would give him enough oil to become a major political power.

With his use of secrecy and book-keeping skills, Rockefeller built up the three daughter companies of Exxon, Mobil, and Socal.

On the other side of the Atlantic, Marcus Samuel had amalgamated with the Royal Dutch Petroleum Company after Rockefeller's attempts to buy him out. And so Shell was formed.

BP was formed with co-operation given the British from the Persians.

The establishment of this oil cartel set a precedent for the relationship of big business to the government.

According to Anthony Simpson in his book 'The Seven Sisters'; "they established the separateness of the industry, defying governments and society and vulnerable only to the most extreme of legal sanctions."

Family traditions — specially in the American companies — helped to widen the gap.

The powers of the companies were such that Western governments delegated much of their diplomatic function to them. Indeed, in the case of Shell, the junior executives — most of whom are Oxbridge educated — seem an elite of para-diplomats.

Saudi Arabia saw them exercising their political might.

King Faisal wanted a bigger share of the companies' profits; they agreed.

This payment constituted a foreign income tax. Under the existing laws for taxation, they couldn't then be taxed in the United States.

The $50 million loss which the United States Treasury sustained was accepted because Saudi Arabia was strategically important and the American Government couldn't afford to upset the oil companies because of their influence with the Saudi Arabian Government.

The "Golden Gimmick" — as it was called — firmly underlined the role of the oil companies in foreign policy, gaining privileges which enabled them to be the paymasters of the Arab States.

Criticism of the "sisters" was inevitable and the International Petroleum Cartel, an in-depth investigation of the workings of the American companies, provided an indispensable source for critics.

Attempts to curb the cartel's monopoly were made by the Mexican Government, when it nationalised its oil wells.

But the Mexicans drowned in their own oil because the companies controlled the markets.

In each of the producing countries two or more of the seven were always in control.

One criticism of the companies was that they were still colonial in outlook. And this proved to be their downfall.

OPEC, chief enemy of the seven companies, was formed to break the sisters' hold on most aspects of oil production.

OPEC at first seemed to be losing the battle, with Nigeria producing oil outside its ranks and King Faisal showing no interest in the restriction of oil production. But the oil-producing companies' organisation soon began to gain power.

The weaknesses of the sisters were becoming more glaring. Mobil lacked any far-sighted policy about the future of oil, Gulf was involved in political scandal surrounding bribes to foreign governments and Exxon had hung on too long to her Middle East concessions.

Biggest of the weaknesses was their inability to collaborate.

The crunch came when Libya nationalised 51 per cent of its oil companies.

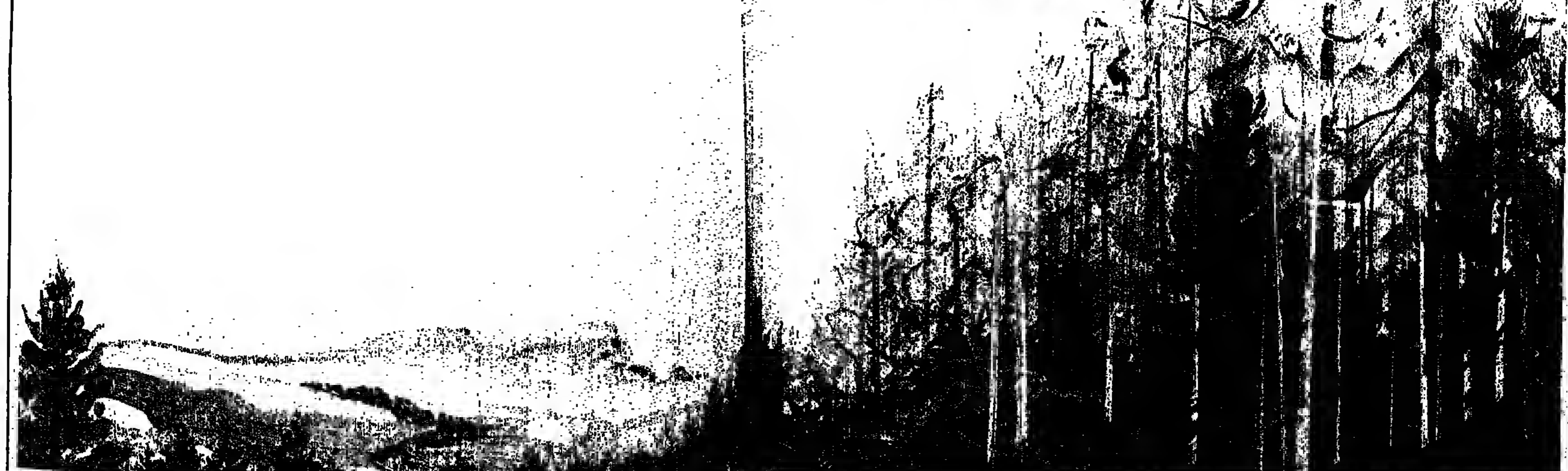
Other producing countries gradually nationalised the companies under the tactful slogan of "participation".

More nationalisation was to follow.

The whole oil cartel had fallen not into the hands of seven companies, but 11 countries.

Today the seven sisters still dominate the world of big business, but they have lost much of the political power they once had.

The greatest financial power in the world is now based in Vienna. Its name is the Organisation of Petroleum Exporting Countries.



Treasury's job: guaging impact on the economy

"NATIONAL benefit" — that is the yardstick by which the Treasury assesses the options for the use of Maui gas.

So says John Cook, the Treasury assistant secretary who looks after energy matters and who is deputy chairman of the Liquid Fuels Trust Board.

He says the Treasury role is to assess the impact of each option on government expenditure, including capital investment, and on the economy as a whole.

It is concerned with where the options fit into the general growth of the economy — what its overall national benefit will be in terms of the balance of payments, employment and so on.

"We have a large resource available," Cook says. "We can exploit this in various ways. We want to maximise the benefit to New Zealand."

Different people see this in different ways. Some see the greatest benefit coming from achieving self-sufficiency and eliminating our dependence on imported fuels.

Cook points out that the closer to self-sufficiency we move, the greater the cost is likely to be to the economy.

Calculation of what is in the national interest would also involve reconciliation of the relative merits of ensuring supply and keeping the total cost of energy to the economy down as far as possible.

This in turn is complicated by questions of future supply and price of foreign-produced oil, Cook says.

There has also to be a demonstrable market for liquid fuels New Zealand might seek to export. And there has to be sufficient investment funds available.

On the last point, Cook has no doubt. Part of his job at the Treasury is negotiating overseas loans. There will be no problem obtaining investment capital for liquid fuel development, he says.

If it is being put into projects which will benefit the New Zealand economy by saving import costs and boosting overall growth, the investments will be attractive to foreign lenders.

Cook says the decisions to be made on liquid fuels are complex.

Assessment of the risk of the various options has been complicated by the fact that some technologies are still developing — and that they have been put to little or no commercial use.

At the same time the interruption of supply caused by the Iranian revolution has shortened the time span in which decisions can be taken.

Cook says there has been "a lot of pressure to make early decisions", but he adds that: "We must look thoroughly at all the factors."

To some politicians, this has looked as if the civil servants are trying to avoid making firm recommendations.

Cook emphatically denies this. "Positive recommendations will be made," he says.

"But I am concerned that we don't rush into a decision which will have a profound effect on New Zealand for a long time."

Is it not the case that it is better to make a decision — even though there is a risk of it being wrong — than no decision?

Cook says: "It would be unwise to make a hurried decision unnecessarily."

Though he acknowledges that it has long advocated a freer economy, he insists that Treasury is not involved in any ideological argument over the extent to which private enterprise or the state should be involved in the exploitation of Maui.

He says there is no disagreement on the broad approach among the Liquid Fuels Trust Board members and the energy steering group of departmental officials serving the Cabinet economic committee — though he does agree there can be different views on individual issues.

As to the role of Petrocorp, the state-owned holding company, Cook says the Treasury view is that it is "a New Zealand energy company".

He says "of course" it should act as a competitor with overseas oil companies in proposing schemes to exploit the Maui gas.

"It acts in the best interests of New Zealand as it sees them from a commercial point of view," says Cook, who sits as a Government representative on the boards of three of Petrocorp's subsidiaries.

That's the drill — a modified tax regime

REALISING that the country can no longer rest on the laurels of Maui natural gas, the Government has delivered a sharply-modified tax package before Parliament in the hope of belatedly stimulating an appallingly inactive oil search.

Almost immediately there was a spark of interest on the mining boards where domestic explorer NZ Petroleum rallied in response to the softer tax bite inflicted upon "resident" oil explorers.

But another stock trading on the NZ exchanges, L and M Oil, the high-flyer of the early 1970s in the wake of Shell-BP-Todd's late last decade find at Maui, drifted lower.

A paradox? No! when the unrelenting attitude of state oil explorer Petrocorp is taken into account.

And the oil boards were so pitifully barren of home-grown producers, the sort of company everyone in power seems to want to encourage but no one wishes to become.

The list is even a little shorter these days with Republic Petroleum biting on the drilling bit and, with debts still believed to be necessary to clear its impounded drilling rig at New Plymouth, the company delisted.

The "resident" companies will be taxed at the rate of 45c in the dollar. That's a lot better than the "non-resident" companies such as Triton, Hunt International Petroleum, Shell London, Shell Houston, British Petroleum and Aquitaine will have to face . . . 5 per cent in fact with the new going rate on foreign firms up from 45c in the dollar to 50c in the dollar.

But for resident firms it's a huge leap from the old 30c rate. Now they are to be treated as ordinary companies when the latter carry none of the massive degree of risk with which speculative oil searches dice.

The Income Tax Amendment Bill, which was introduced in mid-August, also contains a slight climb-down on the part of officials who wanted 55c in the dollar but saw a sharp reaction from Hunt which withdrew from active exploration in its vast southern licence area in the Great South Basin in protest at increasing insistence from Wellington on a bigger state "take."

Certainly the nation had to upgrade outmoded taxation in line with changing international circumstances. Oil has become the most vital commodity on the planet after air and water.

It has surpassed cash crops, meat and metals as a revenue-earner for those that have it and is the major factor behind the theoretical shift of wealth from the industrialised West to the less developed nations of OPEC (at least in terms of the name on the bank accounts lodged in the City of London and New York).

The nationalistic attitude of OPEC has been contagious and even countries like New Zealand, which have virtually not discovered oil at all, now have their oil czars.

Depending on one's perspective, the fact that the new state company Petrocorp continued the search for hydrocarbons single-handed this year is a matter for praise and endorsement of future "solo" work or an indictment of the Government's mistakes which have scared away oil explorers.

It has become clear that the financial regimes of some other prospective zones, such as Mexico and Asia, are more appealing than New Zealand. Some major explorers in other parts of the world remain totally disinterested in any New Zealand search such as Mobil Oil Corporation, Exxon, Getty, Socal and instead of a plethora of current wells we have had but one, the Petrocorp well Tako I which has become the second deepest in New Zealand oil history.

Petrocorp angered the oil exploration industry when it reacted to a cautious-to-procrastinating attitude on the part of the private explorers by setting up its own drilling ventures. The more it has been on its own, surveying and gathering useful data, the more Petrocorp has become reluctant to hand over a slice of the action in the most prospective province, Taranaki, to private partners.

But it has been forced to reconsider farming-in private operators and is on record as saying it would welcome joint ventures with New Zealand companies.

Though it has yielded its licences in North Canterbury, Hawke's Bay and some of Westland these areas do not appeal to the private companies as greatly as Taranaki which is a matter of contention with the explorers.

Both Shell-BP-Todd and L and M have previously been involved in onshore work as well as their more publicised offshore activities.

L and M spent half a million dollars prospecting in Taranaki and the well which Petrocorp will drill throughout coming months was on the L and M programme until its land licence expired.

This is McKee I, which ironically is named after an L and M founder director. Toko itself was the well which the consortium of private explorers drilling Urenui onshore in Taranaki in 1972 planned to drill.

That consortium was Shell-BP-Todd 50 per cent, Aquitaine 35 per cent and Radius 15 per cent. L and M had a 61 per cent stake in Radius.

The private consortium was deterred from drilling by what L and M have called the ridiculously tough terms demanded by officials establishing conditions for petroleum prospecting licences.

Refusing to tolerate the terms which included a 15 per cent onshore royalty rate, L and M backed off in protest. L and M director Jock Braithwaite is on record as saying: "Government attitude is that their agency Petrocorp Exploration was forced into existence because the private sector would not take up licences in Taranaki. This is not true without qualification."

"They wouldn't back down on terms. They're dominated by the feeling we mustn't make a profit."

Petrocorp takes the view that it was established to improve the "sporadic" nature of the oil search and in two years it has drilled in Westland, Canterbury and Taranaki all without success.

When Petrocorp moved into Taranaki it had the advantage of private records becoming public as the companies withdrew, but since then it has built up more knowledge than anyone and when the pressure mounted on it to release some licence areas it decided it had the right to drill alone at McKee.

McKee is a structure five kilometres south-east of Urenui. It would probably have been the target of more private seismic surveying had Petrocorp not entered the search.

Some months of tough negotiating seem in store before any of the private explorers reach farm-in agreement with Petrocorp but Taranaki drilling could be well advanced by any agreement for further liberalisation by Petrocorp.

The state company is also assessing further prospects in Hawke's Bay and on the West Coast of the South Island.

L and M's $1m earmarked for exploration could thus be still on ice this time next year unless a further breakthrough in relations with the Government is made.

Interest will focus on the drillship operations of Shell-BP-Todd offshore Kawhia Harbour at the very interesting "Structure S."

There has been a good deal of frustration in the private consortium at the way in which the oil crisis was permitted to resurface and slide into an era of carless days and weekend closures before urgency was taken to spur the lagging oil search.

"Structure S" has been talked about for years as a good prospect on the northern extremity of the Maui field and with the failure of Aquitaine to the south of Maui in the last days of the Penrod 74 rig's presence in our waters, the spotlight has swung even more to the structure.

As one oilman put it at the start of the Iranian supply shortage: "The oil world is going up in flames and in New Zealand nobody is getting hold of the need to drill. Compare our one current oil well to Australia's 80 or more."

Participants on Structure S will be Shell as operator, Shell (US) (the first stake for the American offshoot of Shell), British Petroleum, Todd Petroleum (the Wellington-based private family firm) . . . and the Government via Petrocorp.

The consortium may have another location it would also like to test while a drill-ship is here.

Any vessel brought in for this programme this summer could also drill off the West Coast for NZ Petroleum, which was having difficulties attracting partners under former conditions.

The company has consistently observed that unless the terms for issuing licences were improved and a satisfactory return on capital invested permitted, New Zealand would not be attractive to overseas interests and NZ Petroleum would not be able to find exploration partners and drilling capital.

The fact remains that a New Zealand company is not big enough to go it alone in offshore drilling. Whether the next phase of drilling is done depends on the view foreign companies take of the legislation.

NZ Petroleum has always maintained that the West Coast offshore area was very prospective and the company is believed to have attracted the attention of some major foreign oil interests.

It has long had an association with Trilon Oil and Gas Corporation of Dallas and it has been in constant touch with overseas partners on prospects.

Its first new well would be about 50km off Hari Hari in South Westland and two wells could be scheduled. NZ Petroleum has drilled 13 onshore wells.

It took the view that there was nothing to sell overseas while the tax proposals were unattractive and there are other outstanding issues to resolve before partners will come aboard.

NZ Petroleum is understood to echo a view often heard in energy circles . . . that New Zealand is a gas province rather than oil-prospective.

Will there be an energy resources levy to face?

The economic impact of such a levy on gas is being weighed.

Participation is another area of conflict. For its 40 per cent payment of oil exploration costs the state is to require 51 per cent control of any oil finds.

But does this give the state company a majority control in vital decision-making which could affect the development pace of a well or the future of a wildcat?

Pricing is another important aspect upon which talking is continuing. The explorers naturally wish any discovered oil to carry the overseas price. This accent on parity has made major difference to the cash flow of Australian firms.

The level of royalty has also to be resolved. One oilman said: "We're waiting anxiously for word on what level of royalty would be demanded. It will be the first clue on how seriously the Government wants the oil search to resume."

So while the taxation level has finally resulted in legislation, the bargaining will now start on royalties, participation and pricing while a drillship likely to spud in and negotiations are over.

One of the key questions is whether Hunt International will decide to resume exploration offshore Southland. Its licence area expires on September 9 and the pressure will be intense to finish the passing of the Bill and resolve other issues before that date.

Seahunt spent about $8 million in the south, with the ill-fated Kawau I well particularly expensive and it would be reluctant to place all this work on open file.

Its Southland lease is in deep water, pushing back the frontier of technology and Kawau . . . showed . . . commercial quantities of gas.

The authorities may be hoping for the debut of a new domestic oil producer now that the tax package is out.

It's hardly been an awesome way of spending money in the past but we may soon be entering a new period of interest in the mining boards a decade after L and M first became the darling of the bourse.

Europeans prepare to turn coal into oil

TURNING coal into oil is an increasingly popular idea politically. But how economic is it really? Jon Fedler of the Financial Times takes a closer look at the oil-from-coal vision.

WHILE South Africa expands the world's only oil-from-coal plant at Sasolburg, and President Carter pledges the massive development of "synthetic fuel" (fuel from crops, coal, tar sands and shale) Europe, too, is quietly preparing a costly and risky stride forward in this field:

- Austrian companies are planning to build four refineries to distil ethyl alcohol from wheat or maize. These are believed to be the first such refineries to be constructed in Europe since the 1830s. The alcohol will be mixed with petrol to make "gasohol" replacing 5 per cent of Austria's current petrol consumption by 1985.

- German Chancellor Helmut Schmidt promised earlier this month to put forward coal liquefaction programmes and goals "of unusual magnitude". Days later the largest German coal-mining state, North-Rhine Westphalia, announced it would shortly award design contracts for several major oil-from-coal plants, each costing up to $2 billion, and producing 2 million tonnes a year of oil. A south German company, Saarbergwerke, disclosed that it was negotiating with Bonn on the possible construction of a plant to process 2 million tonnes a year of coal into 830,000 tonnes of liquid fuel.

EEC Energy Commissioner Guido Brunner announced simultaneously that Brussels would float a $2.8 billion loan to the European capital market, for a programme to accelerate coal liquefaction projects in Germany and Britain.

Methods of making oil from coal have been known since the turn of the century. In Germany they were used on a large scale during World War II to provide motor and aviation fuel. In South Africa they currently provide about 8 per cent of the country's petrol needs, and will supply 40-50 per cent in the 1980s.

Nevertheless strong doubts remain about the economics of coal liquefaction, and the United States and German plans are based more on political considerations, including energy supply, than on profitability.

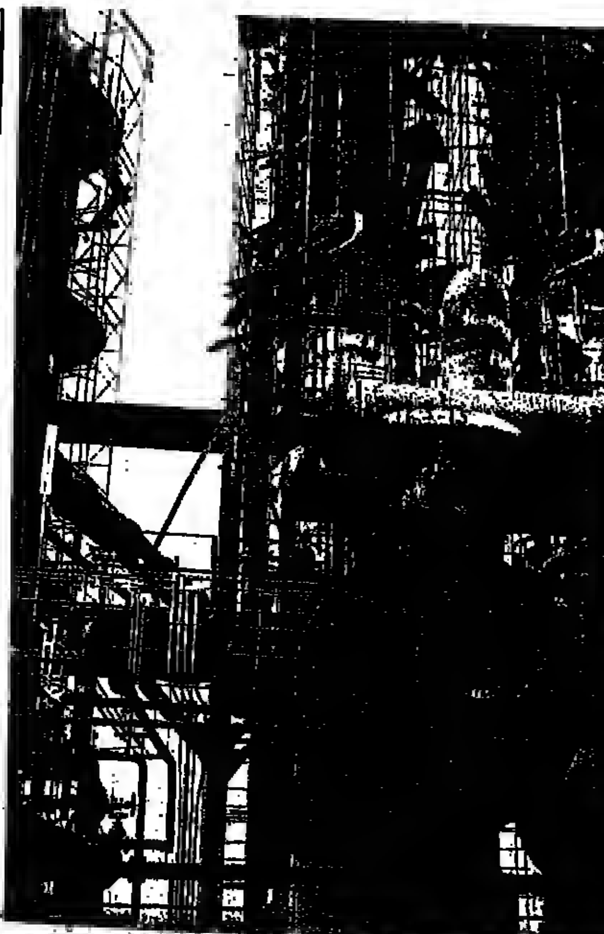
Even at today's oil prices, substitute fuels would cost considerably more to produce than oil-based fuels. According to Professor Werner Peters, General Manager of the German Coal Research Agency, Bergbauforschung, petrol from German coal would reach "cost comparability" with oil-derived petrol at a crude oil price of $40 a barrel — roughly double the current official OPEC average.

Clearly the oil price will have to go much higher and stay well above the coal price for coal-based fuel to become profitable. But neither of these requirements can be guaranteed. In the past, coal prices have risen with those of oil, and this is likely to continue. Also, as major coal producers like South Africa and the United States use more of their coal for electricity or liquefaction, coal is bound to become scarcer and more expensive.

Applied on a massive scale, coal liquefaction, along with energy conservation and lower economic growth might conceivably cause a slackening of world crude oil demand, preventing major new oil price hikes and making liquefaction correspondingly less economic. This would be further aggravated if other "unconventional" oils, as from shale or tar sands, were to come on stream simultaneously.

Similar arguments apply to production of alcohol for fuel. In Austria, for example, the refinery price for this petrol additive will cost double the pump price for petrol.

Politically, such measures are bound to be popular, whether in the United States or Europe. Any way of keeping petrol flowing — especially if it uses domestic energy sources



SASOLBURG PLANT...turns coal into oil.

and promises to reduce dependence on OPEC, will have an obvious allure.

That the environment will suffer from increased mining and processing and that the search for further petrol supplies in the mid 1980s will discourage conservation is equally certain. Meanwhile economic miscalculations could also turn the big synthetic fuel factories into white elephants.

After Maui — the Southland lignite mines?

COMPARED with the bright-burning coals of Ohai and Nightcaps, lignite from the small mines pocketed along the vast Mataura Valley and associated areas in Southland has never been a popular commodity. But today that lignite is being regarded as the possible saviour of New Zealand's long-term energy needs.

The Southland lignites have been mined on a small scale since the 1870s. Even the earliest settlers realised that many parts of eastern and southern Southland contained sizeable deposits of the slow-burning fuel. It wasn't until 1976 when a concerted drilling effort began that the Ministry of Energy realised just how large the deposits were.

The latest proven estimate, according to the Commission for the Future, is a mammoth 4400 million tonnes—sufficient, according to some calculations, to meet New Zealand's energy needs for 200 years.

With the Mataura estimates included, New Zealand's known coal reserves stand at 90,000 petajoules. (one petajoule is equal in energy terms to 22,000 tonnes of petrol). Our annual energy consumption is about 400 petajoules.

If the most optimistic reports are to be believed, the Southland lignite fields could contain the energy equivalent of 10 Maui fields. Maui has a known reserve of 7500 petajoules.

But the optimism must be mixed with realism, and the situation now is that not enough is known about the Southland lignite fields. Only a few pits are worked at the moment, and between them, they produce about 120,000 tonnes a year for industrial and domestic use.

The drilling programme which caused much excitement in the south, began in November, 1976, and ended two years later. Exploration was carried out by Lime and Marble Ltd under contract to the Mines Division, and the company's results are now being assessed by the DSIR.

Drilling was carried out by truck-mounted rotary rigs, and holes were drilled to about 200 metres in depth at two kilometre intervals on lines across the eastern Southland basin some seven kilometres apart.

From January last year, all holes were logged electrically, which gave drillers more accurate information. In fact, regret has been expressed that all holes were not logged electrically.

The two main points of the exploration work appear to be that Southland does indeed have vast lignite deposits but that not enough is yet known about them.

More important, the exploration to date has not proved just how much of the lignite is workable.

To be sure, some streams stretch several kilometres and are known to average about four metres thick, with a maximum of 18 metres, but often they angle underground to considerable depth, which would add considerably to extraction costs.

Further, the water content is high—40 to 60 per cent—and this would affect efficiency.

Already, however, the environmental aspect is causing concern. The thought of tearing up large parts of fertile eastern Southland to get at the coal underneath is worrying not only environmental groups but also the likes of Federated Farmers and the Southland County Council.

The Mataura Valley, along which much of the lignite is buried, is flood-prone, and open-cast mines could become huge holding ponds. Local bodies are also asking what the despoiled land will be back-filled with. And a drop in the ground level of four metres would certainly affect water tables and make the affected parts of the valley even more prone to flooding.

Nevertheless, all Southland accepts as inevitable the conclusion that the lignite deposits are going to be mined more extensively than in the past, and a multitude of possible uses are being put forward.

As long ago as 1968, a silicon industry was proposed using known silica deposits in the area. Those deposits were not considered economic at the time, but at least one vast overseas company is known to be still interested in developing a ferro-silicon industry using a Mataura lignite-fired power station.

Another possibility acknowledged by the Energy Minister Bill Birch, is converting the lignite to gasoline, diesel and other liquid fuels. The Commission for the Future has also mentioned this possibility.

The DSIR has sent samples of the Southland lignite to Australia to determine its feasibility for such conversion.

(Birch has not repeated a statement soon after he took over the portfolio indicating he was in favour of simply exporting the lignite to boost the country's coffers).

Apart from conversion to gasoline and other fuels, the commission had three other suggestions for possible usage—directly as a fuel for industry, gasified for the domestic and industrial market in the South Island or committed to long-term use as a feed-stock for the production of materials such as plastic or nylon.

It also suggested it could be left in the ground for future generations.

Depending on what Maui gas is actually used for, the gas field could last 35 years and it is when this is about to end that most serious consideration is likely to be given to Mataura lignite.

Various authorities have warned, however, that a piecemeal approach to the deposits could see their long-term value eroded. If various industries are allowed to develop, using the most accessible coal, the cost of setting up and running, for example, a coal-to-oil plant would become so much more expensive.

While some "mix" of uses is obviously possible, long-term usage must be determined so that guidelines and policies can be adhered to in the nation's good.

But this will depend on a total New Zealand energy policy.

Until a long-term strategy for all energy needs is determined, the Southland lignite fields will continue to be the country's energy equivalent of the goose with the golden egg.

One reassuring aspect is that government departments are showing no signs of haste. As the DSIR says, much more research is needed, which will obviously cost money. This research will have to be closely analysed.

With Maui gas now on stream, New Zealand does have time to consider fully the possibilities of the Southland lignite. After all, it's not as if the fossil fuel is going to disappear.

State steps into energy business

THE $55 million limited liability company, Petrocorp, was created as an expression of greater Government concern to find alternative sources of fuel.

But it was not set up as a statutory state corporation, as are many other state enterprises. Instead, it was created as a limited liability company.

Established in March last year, the aim was "to seek equity participation by commercial interests and the general public at the same time," says chairman F W Orr.

Petrocorp, (The Petroleum Corporation of New Zealand Ltd.), has four subsidiaries: The Natural Gas Corporation of N.Z. Ltd., The Offshore Mining Company Ltd., The Petroleum Corporation of New Zealand (Exploration) Ltd. and the recently created Petrocorp, the Petrochemical Corporation of New Zealand Ltd.

By setting up the company as a liability company, the Government hoped to encourage private sector participation in Petrocorp.

But it's top two executives have been recruited from the Government bureaucracy — group general manager, R J Hogg, and group policy and planning manager, R H Goode.

The Natural Gas subsidiary, originally a state corporation, has the task of increasing the availability of gas and extending gas pipelines to service a wider area of New Zealand.

One of its more important responsibilities is operating all onshore gas pipelines, including those constructed for Maui Development Ltd.

Petrocorp (Exploration) Ltd

PETROCORP'S general manager R J Hogg.

has been charged with carrying out the Government's onshore petroleum exploration programme.

The present project is the drilling of the Toko No. 1 Well near Stratford.

The most recent addition to the Petrocorp family is Petrochemical Corporation of New Zealand Ltd. It has the task of constructing an ammonia-urea plant to provide nitrogeneous fertiliser for New Zealand.

Eight months after Petrocorp's establishment another body — the Liquid Fuels Trust Board — was formed to investigate ways of reducing consumption of imported fuels.

The board's aim is to investigate the various alternatives funded by a levy on automotive fuels of 0.1c per litre.

Dr Colin Molden heads the board of three private sector members and representatives of the permanent heads of the Treasury, DSIR, Trade and Industry and Energy.

Dr Molden hopes that by the end of this year New Zealanders will know what fuels or fuel will be running their cars in the future.

What Maui will mean to Taranaki

"NEW Zealand is one of the energy rich countries in the world.

"We should be able to turn this to advantage but time is not on our side. Certainly, not enough time to allow for dalliance, for fruitless discussion. The situation is too urgent for that."

The time: May 1979

The place: Oaonui, South Taranaki

The speaker: Prime Minister Robert Muldoon.

The occasion: The official opening of the Oaonui production station—the beginning of commercial production of gas and condensate from the Maui field.

Ten years since the discovery of the field off the southern coast of Taranaki and four months after the official opening of Oaonui, Taranaki—and New Zealand—is waiting for the Government to decide just what it is going to do with those vast energy reserves.

According to the Prime Minister, utilisation is the key—at least, that's what he said in his Oaonui speech, which also emphasised the need for urgent action.

Nobody in Taranaki—from farmer to businessman to local body or departmental official—would dispute the urgency of the situation. What has them puzzled is just why it has taken this and previous Governments so long to make a decision.

Federated Farmers leader Brian Fobish hopes the delay means planning is under way for selecting the best use of the fossil fuel.

"There have been too many projects started without much thought in the past," he says. "It's no good being impatient...let's just hope the decision they make is the right one."

Town and city people, however, view the situation differently. Planning was put by Taranaki United Council, chairman Leo Carrington as the key to the successful introduction of a new and different industry into the farming province of the country.

Not one official—health, labour, social welfare, education—disputes his view. The problem is not knowing what to plan for.

"Until the Government makes up its mind about what sort of industry will arise we can't do much," says Taranaki Education Board manager, A V Berridge.

Most local government officials find the situation frustrating.

The Taranaki Harbours' Board expects to reap the benefit of more trade through the provincial port and is preparing for it.

But, like other authorities, it doesn't quite know what will be required, such as special facilities for LNG or CNG or fertiliser ships.....

"We are providing for it," says a harbour board official. "We've put aside land for further expansion."

The Taranaki United Council considers it is providing for the effects of Maui development, but so far its provisions have been only to accept a policy of making sure any benefits are used to the province's advantage...

About the only authority that is doing something other than making policies is the Taranaki Catchment Commission, which has produced a water allocation plan for one southern Taranaki river, has another under way and is hoping to gain approval for other schemes.

Whatever the ultimate Government decision on Maui, the TCC sees its projects as still benefiting the province.

Local authorities and government departments do agree on one point—Maui development will have little impact on Taranaki.

In a province with more than 1000 unemployed, (most of them under 30 years old), top-heavy secondary school rolls and declining primary school rolls, Maui probably won't prove to bring a "great leap forward".

The key question for the province is: Can it cope with the social effects that must occur over the short-term — the time when construction of the various industries spawned by Maui takes place?

Social studies in Scotland, during the development period of the North Sea oil and gas fields, show how a strict line was drawn between locals and outsiders.

In Alaska, a reverse job discrimination occurred. Work was given to locals before outsiders, regardless of abilities.

The industry usually imports its own personnel and, except for the construction period, is capital rather than labour intensive.

During the construction period, the province will undoubtedly prove attractive to outsiders. Indeed, it can expect a huge influx of outsiders because, as well as the Maui development, which includes the Natural Gas Corporation's Kapuni ammonia-urea complex, the Egmont Power Board will require labour for its $25 million Patea River power scheme.

Already Maui developments are feeding local suspicions of "what the others are up to" and creating a division between town and country.

The National Roads Board decision to give priority to access routes to the petroleum-based industries has brought enraged Stratford county people out fighting for work on State Highway 43—a twisting, partly sealed road linking the central Taranaki town with the outbacks.

Adding some doubt as to whether Taranaki people can overcome their insulation is the dispute between the town of Kaponga and Taranaki Hospital Board's planned closure of the maternity unit to meet Government-ordered cuts in expenditure.

Instead of uniting for battle, Kaponga—the town nearest to Kapuni—attacks the board and keeps the battle local, instead of uniting so that each can benefit from the situation.

Health Minister George Gair was the Energy Minister who gave the go-ahead to the siting of the ammonia-urea complex on prime agricultural land. Both board and town would have a good case to present to him for exemption from the "cut costs" rule in view of the Maui development.

When the Government does decide which option it will take, a province famed for the Taranaki gate (a contrivance made of wood, wire and whatever else happens to be at hand and used to plug gaps in the fenceline) should be able to cope with whatever comes. After all, the people are accustomed to Government making decisions then dumping on them the resultant problems to solve.

Petrocorp: self-sufficiency the aim

PETROCORP, the wholly Government owned oil exploration group, is bidding to join the big league with the most ambitious of the various proposals for exploitation of the Maui gas field.

Petrocorp proposes a major petro-chemicals complex in Taranaki costing around $1.5 billion with an export earning potential said to be $400 million a year.

The objective is liquid fuel self-sufficiency while providing the maximum economic return for the country. Profit is a subsidiary, though not unimportant, priority.

Petrocorp does not pretend that the two objectives will always coincide. But it feels that only it among the oil companies can successfully bridge the gap.

Through its position as a wholly owned State corporation, it claims it can best exploit the country's greatest energy resource in a co-ordinated programme aided by private capital.

Employing and training local labour is also stressed, along with development of the marketing skills for exporting petro-chemical products.

Local industry could be developed rationally to complement the total project.

In initial detail, Petrocorp's proposals differ little from BP's. Petrocorp wants an immediate green light for a 2500 tonnes-a-day methanol plant. Up to 1000 tonnes a day will go into a 15 per cent gasoline blend.

The balance would be exported.

Negotiations are said to be at an advanced stage for marketing the surplus in Japan.

Beyond that, the scheme is pure Petrocorp.

Petrocorp's ammonia-urea plant should be working within two years. Its export prospects, until the domestic market grows to absorb the 160,000 tonnes a year of urea, look bright.

The Iranian crisis has sent naphtha prices soaring, making it uneconomic as a basic petro-chemical feedstock.

Ammonia-urea from natural gas looks set to grab the market.

Petrocorp is also considering the production of urea pellets, rather than prill which has limited uses.

As pellets, urea can readily be used by top-dressing aircraft, specially over forests and orchards.

Basic to Petrocorp's petro-chemical complex is a central gas-processing facility receiving raw gas from the Kapuni and Maui fields, and removing carbon dioxide, ethane, butane, propane and heavier hydro carbons.

Union Carbide, the world's biggest producer of polyethylene, has agreed to licence Petrocorp to use its newly patented process, which has halved capital costs and cut operating costs by three-quarters.

Ethylene could be used also for producing polyvinyl chloride (PVC). But this process has already raised environmentalist ire this decade.

Chemby Industries in partnership with B F Goodrich proposed a plant at Marsden Point in 1977. After environmentalists protested strongly at the dangers of anglo sarcoma, a fatal disease traced to PVC manufacture, the plant was deferred.

Petrocorp estimates that the central processing unit will strip more liquid petroleum gas from the raw input than can initially be used locally. The surplus, it says, should be exported.

Methane will be another product. The gas would be piped to households throughout the North Island by a Petrocorp subsidiary, the Natural Gas Corporation.

A pipeline is under construction from Taranaki to Kinleith to supply New Zealand Forest Products main plant.

Phase two will encompass a Fischer-Tropsch synthetic crude plant as modified by Sasol, the South African Gas and Oil Corporation.

Sasol uses coal as a feedstock, but Petrocorp estimates around 70 per cent of the construction costs can be saved if natural gas is used instead.

The synthetic crude produced could be piped to the Marsden Point refinery to produce a wide range of liquid fuels, from diesel to petrol and jet fuel.

Petrocorp estimates the cost at around $500 million.

By-products from all processes could be further utilised to obtain a wide range of petro-chemicals, depending both on world prices and local demand.

Petrocorp's critics argue that it lacks the expertise to plan, build and manage a large petro-chemicals complex. But the State-owned company claims it will be using the same or similar consultants and technical advisers that the multinational oil companies would employ.

And in negotiations with prospective partners and major petro-chemical groups for essential patents, Petrocorp claims it met a willingness to do business.

One overseas company has offered to take the total output of Petrocorp's planned methanol plant in return for a 20 per cent shareholding.

Fully implemented, Petrocorp's plan will more than use the take-or-pay quantity from the Maui gas field, and make a second Maui platform necessary by the mid 1980s.

Synthetic crude from the Sasol plan, plus the increased condensate production from the high use of gas, will make the country almost self-sufficient in liquid fuels.

By adding the maximum value before export, Petrocorp estimates at least $400 million a year can be earned from petro-chemical exports.

Barely 18 months old, Petrocorp is fighting for its life against the oil majors — BP, Shell and Mobil, — which have each put up a proposal for the use of Maui gas.

Petrocorp argues that the oil majors have only one interest — profit. They are not, therefore, necessarily interested in the rational development of resources to produce the maximum benefit for the country.

Shell: export of LNG

SHELL Company executives — who say their scheme is more than a suggestion to the board of Maui Development Ltd — propose exporting liquid natural gas.

They are world leaders in liquid natural gas technology developing it first in the late 1950s to ship LNG from Algeria to Britain.

The process is now used in West Africa, Malaysia, Brunei, North Africa and soon off the north west coast of Australia, either by Shell subsidiaries or licensees. Japan and the United States have a near insatiable appetite for natural gas and transporting it over oceans in the form of LNG is at present the only practicable way.

Shell justifies a New Zealand investment in LNG solely as an export earner, to pay for Arab petrol.

Even with all schemes operating at maximum capacity, resulting in the highest rate of condensate recovery, it would still leave the country 55 per cent dependent on oil imports, Shell men argue.

Going for LNG would necessitate the building of two more platforms to extract gas from the Maui field, an onshore processing plant, and a fleet of perhaps four LNG tankers costing at least 125 million pounds apiece.

A decision to go ahead this year would result in LNG boosting export earnings by 1988.

Thirty years later, unless more big discoveries are made soon, Maui will be exhausted. Shell is already looking to that time.

In Europe the group is developing the Shell Koppers process for turning coal into gas. The principle is not new, but the technology is.

Shell claims the process is much simpler and cheaper than the Fischer-Tropsch method developed in Nazi Germany and now used by South Africa.

An experimental plant has been working in Holland for some time and a 300 tonne a day pilot plant has been commissioned in Hamburg.

New Zealand's proven coal resources total 3000 million tonnes. Thus the process would seem suited to provide New Zealand's energy needs after Maui.

The LNG proposal invites criticism from environmentalists.

Chilled to minus 200 centigrade, LNG is strictly a cryogenic, a highly volatile liquid.

Environmentalists point to past disasters and highlight potential hazards of its further development.

But Shell men claim the case studies which environmentalists quote relate to old technology, the methods Shell left behind in the 1950s.

After sending LNG on thousands of voyages in some of the world's busiest sealanes and ports, the company claims there has been no serious accident since operations began in 1964.

Japan's largest receiving terminal, they point out, is in Tokyo Bay, in the heart of the Japanese capital.

Shell is in a no-loss position, whatever the Government decides to do.

With an 18 per cent share in Maui, the New Zealand subsidiary of the giant Royal Dutch Shell group can afford to be content.

On a world scale, and among Shell's other interests, Maui is small. But the company adopts the attitude that it is virtually obliged at least to go through the motions of offering its expertise in developing New Zealand's all-important energy resources.

And worldwide, the group can claim a long experience in most of the projects being considered by the Liquid Fuels Trust Board and the Government. That is more than some of the backers of other projects can claim.

But Shell claims it is not in the business of knocking the other schemes.

It sees no reason why the Government should not opt for all three schemes in some form. It is prepared to join in with capital investment and contribute management expertise.

What it does see as the danger is the Government opting for one scheme and turning down the others.

BP: believes methanol the key to solving problem

BP will be bitterly disappointed if its methanol proposal fails to win Government approval.

The British-based oil major has put more than two years planning into its proposal — and is ready to start at a moment's notice.

Land has been bought in Taranaki for what could develop into a large petro-chemical complex by 1990.

Methanol, according to BP, is the key to solving New Zealand's energy problems.

Not only can it be added to petrol in the M15 combination; it is also the base material for synthetic gasoline and many petro-chemicals.

That BP has no experience in methanol production is irrelevant, says New Zealand managing director David Kendall.

"We are producing petro-chemicals around the world. This is just another process we have not done before," he said.

To BP, a 2000-tonne-a-day plant makes good sense. Up to 1000 tonnes could be added to petrol from the Marsden Point refinery to produce an 85 per cent petrol blend.

The other 1000 tonnes could be exported, principally to Japan.

But more importantly, Kendall says that a methanol plant would establish the framework for liquid fuel self-sufficiency by 1990.

"It would set in train a logical progression with a series of go and no-go decision points the whole framework being towards the progressive development of indigenous fuels plus the development of energy intensive high value added industries," Kendall said.

By 1990, he argues, the demand for oil is expected to outgrow supply regardless of any discoveries in the interim.

"There is nothing to say that methanol is the wrong decision to take. It is logical to start with it," Kendall said.

And the next step would immediately follow — a full feasibility study on Mobil's synthetic gasoline proposal.

BP considers the go no-go decision on that should be taken by early 1981.

In 1983, the first methanol plant should be commissioned. Work then should be well advanced on either a second methanol plant or an ammonia urea plant with a capacity of 800,000 tonnes a year.

BP's market studies forecast a large unfilled demand for urea in the late 1980s, when its plant would be coming on to full stream production.

And in the mid-1980s, BP sees the need for a decision on a third methanol plant.

Kendall estimates that even at that point, the full take or pay quantity of Maui gas may not have been reached.

BP is keen to get the first stage moving. To do so requires a capital investment of around $150 million.

Unlike Shell and its liquid natural gas proposal, BP is not eager to share the project with other oil majors.

BP will want one or two big Japanese investors locked into the funding, if only to guarantee markets for the surplus methanol.

Kendall says negotiations are already well advanced with the Japanese.

"We want some public participation," he said. "It is about time the New Zealand public had a chance to invest in its energy resources."

Many of the country's large companies had already expressed an interest, Kendall said.

New Zealand — through companies, the public and the Government — can expect perhaps up to a 40 per cent shareholding, (though more probably around 30 per cent).

Kendall sees little part for Petrocorp, the Government-owned oil exploration group, to play.

In BP's scenario Petrocorp might get a 10 per cent shareholding plus the balance not taken up by the public at large.

Beyond the first methanol plant, Kendall is less precise about BP's role — though the company would expect a large share in the development of an ammonia-urea plant.

And as owner, manager and operator of the core methanol plant on the 130-hectare site, at Omata, BP would at least expect to continue in that role for other plants hooked up directly.

BP would hope the Government, in setting out its framework, will require design work to be done for the easy addition of other petro-chemical units like Mobil's synthetic gas proposal.

Kendall emphasises that every project should be done on a cost-effectiveness basis. For that reason alone, BP sees the decision to expand the Marsden Point refinery as irrelevant.

"We are already committed to it," he said.

"In foreign exchange savings the extensions will pay for themselves in two years," Kendall said.

New technology will be an important factor to be considered within the framework through the 1980s. All the oil majors and other big petro-chemical names are pouring millions of dollars into research, seeking cheaper and more efficient ways of adapting natural gas to liquid fuels and for energy sources beyond.

By 1990, Kendall claims, New Zealand could be self-sufficient in liquid fuels if the Government is prepared to plunge ahead with methanol and ethanol, encouraging car manufacturers to build suitable engines.

BP is also interested in partnering Shell to develop the LNG scheme. But Kendall warns that it will need the discovery of at least one more large gas field before the decision is taken.

Exploration both on and offshore by the Shell-BP-Todd consortium is expected to begin again next year, tapping prospective sites near the Maui field and on land in Taranaki.

Mobil's drive for synthetic petrol

MOBIL wants to turn New Zealand's natural gas into synthetic petrol.

Methanol is fed into the minute molecular structure of the company's patented zeolite catalyst and cannot escape, under a Mobil process, which company executives predict will be recorded by historians as the technological breakthrough of the 20th century.

Only petrol and water can get out through the tiny tortuous channels. That is the secret of the process.

And Mobil claims it could be directly producing half the country's petrol needs by 1981.

Three methanol plants yielding 6000 tonnes a day of raw methanol will be needed to reach optimum production levels.

Mobil refutes arguments that New Zealand will be a guinea pig for the $150 million plant.

Planning and technical director Wayne McKeg says the catalyst has been used for years and is already in use at the Marsden Point refinery.

For the last ten years it has been used at 21 plants around the world to produce other petrochemicals, he says.

Mobil technicians have used the zeolite in a form known as ZSM-5 to squeeze water from methanol, rearrange the molecular structure of the remaining hydrocarbons and so produce synthetic petrol.

McKeg claims that the petrol is superior to that normally refined from crude oil.

Test-bed plants have produced a 94-octane rating fuel requiring only a fraction of the lead normally added to petrol to obtain a premium 96 octane grade used by most cars.

The hardware to carry out the process is small, taking up the space occupied by the average family home.

Mobil proposes a 20,000 barrel-a-day gasoline plant, turning out 83 per cent methanol, 14 per cent liquid petroleum gas and 1.4 per cent light fuel oils. Condensate extracted with the Maui gas would supply another 25 per cent of the country's liquid fuel needs.

McKeg insists the technology is proven.

"The real risk is that we do not get 83 per cent, but only 82 per cent petrol", he said. "And the test plant is performing better than that."

President Carter's latest energy policy is likely to lead to a larger plant running on coal, a process that might be applicable to New Zealand when Maui dries up.

At Mobil's projected production rates the plant and the associated methanol plants will use about 45 per cent of the Maui take or pay contract each year and after 25 years would have used only a third of the proven Maui reserves.

Mobil — which has no interest in the Maui development — will not buy the gas or raw methanol. It will be essentially a processing unit attached to a methanol plan located in Taranaki.

Mobil would charge the owners of the gas input four to five cents a litre, including about half a cent royalty on the patent, for turning it into petrol.

"We would naturally expect to have preferential rights on some of the throughput, at least our market share."

The process will become economic when crude oil reaches $25 a barrel, around $7 more than its current market price. Thus inflation resulting from rising oil prices will undoubtedly push Mobil's cost higher too.

"But if we go ahead now, when oil prices pass through the $25 barrier synthetic petrol will be cheaper," McKeg said.

McKeg says synthetic petrol will save more in foreign exchange than diluting petrol with methanol as an interim step.

Mobil has the car manufacturers on their side. As yet, apart from Volkswagen in Brazil, the manufacturers have shown a reluctance to introduce engines running on alternative fuels.

The small market and low turnover of cars in New Zealand further make it unlikely that the manufacturers would consider building engines specially to run on local fuels.

New Zealand's energy decision-makers

The Politicians

CABINET ECONOMIC COMMITTEE

Chairman: R D Muldoon, Prime Minister and Minister of Finance.

Brian Talboys

Members:
B E Talboys, Deputy Prime Minister, Minister of Foreign Affairs and Overseas Trade. A member of Parliament since 1957, Talboys has also held portfolios in Agriculture, Science, Education, Trade and Industry and National Development. Holds a bachelor of arts degree. Aged 58.

D MacIntyre, Minister of Agriculture, Fisheries and in charge of Rural Banking and Finance Corporation. Member of Parliament 1960-72 and — 1975. Has also held portfolios in Lands, Forests, Maori Affairs, Island Affairs, Environment and Agriculture. A sheep farmer. Aged 64.

Lance Adams-Schneider

L R Adams-Schneider, Minister of Trade and Industry. Member of Parliament since 1959. Has held portfolios in Broadcasting, Industries and Commerce, Customs, Health, Social Security and Social Welfare. Background in the retail textile trade. Aged 60.

H C Templeton, Minister of Broadcasting, Statistics, Customs and Deputy Minister of Finance. Member of Parliament 1969-72 and 1975—. MA, Otago and BA, Oxford. Has held diplomatic posts. Aged 50.

J B Bolger, Minister of Labour and Immigration. A farmer. Aged 44.

W F Birch, Minister of Energy, National Development and Science and Technology. Member of Parliament 1972-. Chairman of Caucus Committees on Energy and the Economy 1975-77. A surveying and engineering consultant. Aged 45.

Jim Bolger

D F Quigley, Minister of Housing and Associate Minister of Finance. Member of Parliament 1975-, barrister and solicitor. Aged 47.

H E Brill, parliamentary Under-Secretary to the Minister of Energy. Member of Parliament 1975-, barrister and solicitor. Aged 39.

CAUCUS ENERGY COMMITTEE

Chairman: B E Brill.
Members: W F Birch, R R Allen, H N Austin, W A Austin, J G Elliott, J B Elworthy, J H Falloon, A P D Friedlander, T de V Hunt, D L Kidd, D C McKinnon, W R Peters, L C Schultz, H J Shearer, J W F Thompson, C B Townshend, M Waring.

The Experts

LIQUID FUELS TRUST BOARD

Chairman: Dr C J Maiden, Vice-Chancellor of Auckland University since 1971. Maiden's engineering background includes ten years at the Canadian Armament Research and Development Establishment and nine years with the General Motors Corporation Defence Laboratory in the U.S. In 1973 he became director of the Energy Research and Development Committee (NZERDC) set up by the Kirk government to promote energy self-sufficiency. He is also a director of Mason Industries, Farmers Trading Company and Winstone Ltd. Appointed chairman of the LFTB in November 1978.

W J P Cook, Assistant Secretary in the Treasury where he has worked since 1963. Also a board member of Natural Gas Corporation, Off-Shore Mining Company, Maui Development Ltd. and Petrocorp (Exploration). Aged 64.

I D Dick, Deputy Secretary of Energy. Was Assistant Director-General of DSIR 1953-67 and Secretary of Mines 1967-78. Board member of the Natural Gas Corporation until 1979. Aged 61.

W J Falconer, Assistant Secretary (Industrial Development) in Department of Trade and Industry. Has been with DTI for 20 years principally involved in trade policy. Also a member of Overseas Investment Commission, Manufacturing Development Council and alternate director of Development Finance Corporation. Aged 40.

Dr D Kear, Director-General [illegible] Born in B[illegible] worked for [illegible] in the [illegible] engineering [illegible] Director [illegible] 1967-74 [illegible] Ross [illegible] Committee [illegible] Research [illegible] 56.

A W [illegible]

Dr D. Kear

1964-60. Appointed to the LFTB December 1979.

I O Stace. Apart from five years in the RNZAF, worked for General Motors from 1940 to retirement in 1979. Director of government and public relations 1974-79. Member of N.Z. Manufacturers Federation Energy Committee and Chairman of Wellington division. Also on NAFTA working party. Aged 65.

LFTB PROGRAMME MANAGEMENT GROUP

Technical director: Dr B V Walker. Holds a B.E. in chemical engineering and a D. Phil. from Cambridge. Has worked for the DSIR since 1967. Walker has done extensive work in the gas field and was technical advisor to the Officials Committee on Maui gas from 1970-72. He was appointed head of DSIR's chemical engineering section in 1974 and from 1975-76 was seconded as director of the Interdepartmental group assessing the potential for producing petrochemicals from Maui gas. He was appointed chairman of the technical working party on methanol as a fuel in 1978 and joined the PMG in August of that year. Aged 36.

Programme supervisors:

J Duncan. Holds a B.E. (Chem.) Employed by BP 1970-78, with special interests in the area of alternative fuels and additives and automotive application of LPG. Aged 30.

Dr R J Hooper. B. E. (Chem.) and D. Phil from Melbourne. Worked for the DSIR 1972-75, followed by post graduate research at the University of Melbourne on coal liquefaction. Rejoined DSIR in 1978 and assessed options for the indigenous production of transport fuels. Also a member of the Interdepartmental Methanol Fuel Working Party. Seconded to the PMG in August 1978 and appointed full-time in May 1979. Aged 29.

Professor A L Titchener. Degrees include B. E. (Mining), B. E. (Mech.), B.Sc. and Sc.D. Lectured at the Auckland School of Engineering from 1951-55 and 1958 onwards. Attended Massachusetts Institute of Technology 1955-58. Appointed Dean of the School of Engineering in 1967. In March 1979 Titchener was loaned to the PMG for a two year period. Aged 58.

J P West. Holds B.Sc. (Hons) in Geology and M.Sc. in Energy Technology-Strategy Assessment. Background includes two years assessing energy technology and policy for the Australian Government. Has worked with the NZERDC on energy alternatives and is currently concentrating on transport fuels. Aged 29.

Director of administration: I R Winkel. Management accountant involved in the past with costing procedures for hydro and geothermal schemes. Aged 42.

The Civil Service

SECRETARY OF ENERGY:

W M Duncan. Appointed to the post when the Ministry of Energy was formed in 1979. Previously assistant commissioner of works (1973-79) and chief power engineer (1970-73) in the Ministry of Works. Has worked for the government since 1944 when he joined the design office of the Public Works Department. Aged 56.

ENERGY STEERING GROUP

Departments represented by:
Dr H R Allan, Prime Minister's Department, advisor on energy, transport and communications. Holds a PhD in traffic engineering and is presently on secondment from the consulting firm of Beca, Carter, Hollings and Ferner. Researched energy policy for NZERDC. Aged 39.

W J Falconer, Trade and Industry, Assistant Secretary. (See under Liquid Fuels Trust Board)

R G Laking, Treasury. Has worked for the Treasury since 1964. Currently in the Industry Division which is closely involved with energy policy. Aged 36.

A G Summers, Energy. Deputy Secretary (Policy). Joined the Ministry of Energy after seven years, 1971-78, as Assistant Secretary in the Mines Department. Aged 55.

A G Summers

The Oil Industry

P W Marriott, chairman and managing director of Mobil Oil New Zealand Ltd. Appointed company head when Gordon Duncan retired at the end of October 1978. An American, Marriott joined Mobil as a process engineer in 1960. Worked in a range of managerial positions from 1964 onwards, becoming corporate planning co-ordination manager in 1975. On the board of directors of Mobil Tyco 1975-77. Presently also chairman of the New Zealand Refining Company. Aged 43.

P W Marriott

D H Tulhope

D H Tudhope, chairman of Shell Oil New Zealand Ltd., Group of Companies in New Zealand also of Shell New Zealand Holding Company, Shell Chemicals New Zealand, Shell Manufacturing New Zealand, Shell BP and Todd Oil Services and, from September 1, Maui Development. Director of New Zealand Refining Company, National Bank of New Zealand, National Mutual Life and Dalgety New Zealand. Holds M. A. and LLB. from Cambridge. Joined Shell in 1949 and was Wellington branch manager 1956-58. Spent the next 9 years overseas as manager of South Eastern Asia division, 1958-60, general manager of Shell Rhodesia, Zambia and Malawi, 1960-63 and Continental Africa area co-ordinator, 1963-67. Returned to New Zealand as chief executive in 1967. Aged 57.

D W Kendall

D W Kendall, managing director of BP New Zealand Ltd. An Englishman, Kendall joined BP New Zealand in January 1979 and became managing director on November 1, 1978. He was previously with the head office of BP in London with responsibility for international bulk sales of crude oil. A chartered accountant. Aged 44.

F W Orr

F W Orr, chairman of Petrocorp (holding company for Natural Gas Corporation of New Zealand, Petroleum Corporation of New Zealand (Exploration), Offshore Mining Company and Petrochemical Corporation of New Zealand.) Also managing director of General Foods since 1965 and chairman of ten subsidiary companies, plus Kentucky Fried Chicken (NZ). Director of a number of other companies including Wattie Industries. Formerly a partner in the Auckland accounting firm of Orr and Orr. Aged 60.

R J Hogg, group general manager of Petrocorp. Has been closely associated with fuel and power questions since 1964, including contractual negotiations on the use of Kapuni natural gas and development of Maui, and government participation in offshore oil exploration. Appointed Energy Resources Commissioner in 1972 and permanent head of Ministry of Energy Resources 1973. In 1977 became Deputy Secretary of Energy (Policy) in the new Ministry of Energy. Appointed Petrocorp general manager in November 1978. Holds a B. Com. Aged 55.

Sept. 6. 1971

NATIONAL BUSINESS REVIEW

Pharmaceutical giants vie for rights to NZ cancer cure

by Warren Berryman

THE $2.5 billion turnover pharmaceutical giant, Warner-Lambert Company, has a team in Auckland this week negotiating with the Development Finance Corporation for licence rights to a cancer drug developed by the New Zealand Cancer Society.

The drug, m-AMSA, and its analogues, is the fruit of nearly 20 years research by a 10-man team headed by organic chemist Dr Bruce Cain, at Auckland's chemotherapy laboratory.

Royalties and fees paid to the Cancer Society and their sole negotiators, the DFC's Applied Technology Division, could reach many millions a year assuming a potential world market of $130 million a year.

Warner-Lambert is not the first company to show an interest in m-AMSA.

Bristol Myers, another pharmaceutical giant (turnover about $3 billion) sent a negotiating team to Auckland in June. The DFC reached a conditional agreement with this company.

Chief negotiator, the DFC's Applied Technology Auckland manager, Owen McShane, said he would now look at Warner Lambert's proposal and decide which of the two giants will get the licence. A decision is expected by October.

The drug works by selectively attacking tumor cells. It has been tested by overseas research organisations including the American National Cancer Institute whose funding reaches $1 billion a year.

The National Cancer Institute has taken m-AMSA to stage two clinical tests. Stage one tests are on terminal patients who have become unresponsive to proven cancer drugs. Stage two tests are on groups of from 100 to 200 patients with less advanced cancers of different types.

Further testing involving millions of dollars is necessary to put the drug on the market. But it is hoped that m-AMSA will prove to be the most potent anti-tumour agent known to the medical world.

Bruce Cain and his team signed over all rights to their discovery to the Cancer Society. In turn, the Cancer Society signed its rights to the DFC, partly because it was legally unable to contract with the United States firms as an incorporated society.

The DFC has also built up considerable contacts and expertise in licensing New Zealand inventions during the three years the Applied Technology scheme has been operative.

Apart from these advantages, the DFC has the financial muscle to protect its client's discovery should legal wrangles over patent rights ensue.

For its licensing work, the DFC usually charges commissions ranging from 15 to 30 per cent of all fees and royalties received.

The drug m-AMSA is probably not in itself patentable because Cain published his findings. Once published, the research becomes common property to the medical world.

Cain said he rather would have patented the drug. But being publicly funded through the Medical Research Council it was a case of "publish or perish".

"If you don't show results by publishing you don't get your grants renewed," Cain said.

While making research available to all might seem altruistic this, ironically, has an opposite effect.

Major pharmaceutical companies want exclusive rights before risking millions of dollars in development and marketing.

This means that the unpatented drug available to all might be developed by no one, as any company might spend millions on development and making the drug known, only to have a second or third company ride on its coat tails and undercut its prices.

The National Cancer Institute, because m-AMSA is not patented, may auction off its research on this New Zealand invention to competing American drug companies.

But the Cancer Society and DFC have a powerful card or two up their sleeves.

While the work on m-AMSA is published, the second generation of research on its analogues (closely related synthesized chemicals) has not been published. This is held by Cain on computer tape and its patentable.

These analogues may prove to be better than m-AMSA itself, and might have applications in other than cancer chemo-therapy.

Understandably, any pharmaceutical company interested in m-AMSA would also want rights to m-AMSA analogues that could supersede it. They also might want to establish a long-term working relationship on a shared technology basis with Cain's team, who already have a world-wide reputation in acridine chemistry, despite the shoestring budget of only $185,000 a year.

Inside:

Air NZ considers hotel investment

AIR New Zealand is examining investment in accommodation to help overcome the country's critical shortage of top quality hotel accommodation.

The decision to seriously consider a move into the accommodation field comes after years of firm corporate resistance to providing beds for the tourist industry within New Zealand.

The return on investment in hotels has been low for several years. This, plus firm hints from the Government that it would be unwilling to see the airline diversify into hotels has kept Air New Zealand out of the field.

But the airline is being forced to re-examine its position by the reluctance of other investors to put money into tourist beds.

The shortage of accommodation — particularly in key areas such as Auckland — has reached such a critical level that any significant improvement in tourist flows is being impeded.

Almost a year after the Tourist Advisory Council made its major report on the development of tourism over the next decade, hardly a bed has been added to the country's stock which was not already being planned.

The TAC called for 1875 beds to be built in the three years to March 1981. But only the Sheraton Auckland (with 444 beds planned) is a definite starter.

Between 1981 and 1988 the TAC wanted between 400 and 800 rooms built annually for a total of 5600 rooms in the ten years from 1978.

The TAC put the cost for the first three years development on 1978 prices at $75 million or $40,000 a room. For the 5600 rooms needed to 1988, the price is $224 million.

The council's report calls its estimates for the potential demand "conservative", and says there is a shortfall in Auckland now of 500 rooms.

"A shortage of visitor accommodation here restricts overseas earnings and is a deterrent to the economic use of accommodation and tourist facilities in other parts of New Zealand", it says.

The reports speaks of "a high unfulfilled demand over several years" and outlines a number of measures to help finance hotel development and improve cash flow and profitability in the hotel's early years.

Except for some relaxation in its overseas investment policy and the lifting of price controls, the Government has failed to implement any of the TAC's recommendations.

Accommodation interests do not see the tourist incentives announced in the last budget as helping to improve significantly their profitability. And it is unlikely that the moves the Government has made so far will improve the return on investors' funds to the extent that the existing and projected demand for high quality beds will be fulfilled.

"The major hotel owning companies have made their position plain and it seems unlikely that there will be any renewed impetus from them until it is clearer that a licensed hotel development is likely to be an economic proposition," says the TAC reports.

It is against this background that Air New Zealand may be forced to join other overseas airlines in direct investment in tourist plant so that their passengers have somewhere to stay.

Auckland is the most critical area, with 68 per cent of all overseas visitors arriving there and it is likely that the city would be the site of any Air New Zealand investment.

Air New Zealand's estimates of the accommodation shortage in Auckland actually run higher than the Government's. Air New Zealand general manager (international) Charles Beresford told last year's National Travel Association convention that the city was short of 800 beds.

Continued on Page 3.

Social Creditors find wave to ride: to where?

by Colin James

THERE is a wave the surf-board riders wait for, the wave of a lifetime, the ultimate surfing trip.

Social Crediters right now are acting as if they have struck that wave.

They are riding inside the huge green curve, riding on and on through an endless summer day. The Social Credit nirvana is nigh.

Three years ago they told themselves — huddled together in the bleak aftermath of 1975 — they could get 16 per cent of the vote and a seat in Parliament.

Few though they were — around 2000 — they decided to hire a fund-raising firm to give them some campaigning muscle. And they set out to educate themselves into an organisation.

It all came true. They got 16 per cent of the vote. They got a seat in Parliament. They were second in 11 other seats.

So at their recent conference they set course for 1981 with rare confidence.

The ways and means committee came down with a breathtaking proposal to raise $1 million for the buildup to the 1981 election.

This caused some disturbance. Some branches did not approve of the method proposed.

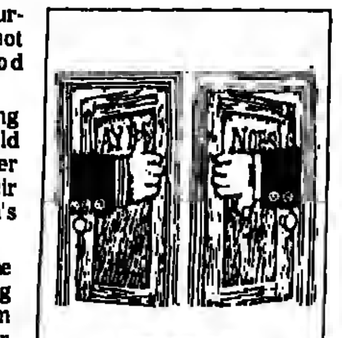
In the last fund-raising period, the Social Crediters did not meet their much lower target and had to curtail their plans for the last month's campaigning.

Southlanders did not like the idea of paying the fund-raising firm, Comptons, from Australia, $52,000 just for advice, without any guarantee of getting their $1 million — that being left to the members.

They came with instructions to vote against Comptons, though not against the $1 million.

The Aucklanders, on the other hand, coming from the region which contained both ways and means committee chairman Stefan Lipa (the man who has become the new president) and campaign committee chairman Nevern McConnachy, championed Comptons. The rest divided between the two camps.

Auckland won. The Southlanders, complaining that they always paid their levies first and made other commitments afterwards, unlike, they said, the



POLITICS

Aucklanders, said they would put it to their troops.

They did not walk out. That would have upset the harmony and no one wanted that. In any case, Auckland did not have things all its own way.

When it came time to elect people to the three vice-presidential vacancies, the conference tried out the single transferable vote preferential system the league wants used in parliamentary elections.

The Aucklanders, who had 28 per cent of the votes and might under the first-past-the-post system have succeeded in electing three Aucklanders to the vacant spots, found they could get only one of their number, Merv Blake, in.

The other two came from the Waikato and Canterbury. Thus were the rights of the small guys preserved against the big guys, just as Social Credit hopes would happen in parliamentary elections.

But it was a bit tough on Byrt Jordan, foundation member of the league and a long-serving vice-president, who was tossed on the scrapheap, victim of a growing preference for youthful ability over dedicated loyalty.

The league is not for old-timers. All except one of the people now at the top have come in in the past 10 years or so — the Beetham era.

These are the people who by and large have never known anything but up. And they are projecting a 25.5 per cent vote for Social Credit in 1981 and 35.3 per cent in 1984.

They figure this would be enough for the "balance of responsibility" in 1981 and minority government status in 1984.

Their plans are very similar to those set out in last year's campaign committee report, which envisaged 22 per cent in 1981 and 34 per cent in 1984.

Some readjustment has, however, been necessary to accommodate the unexpected National collapse last year. The 1978 targets showed National well ahead in 1981 and Labour edging ahead of National in 1984. That has been altered to a Labour lead in 1981 — 38.7 per cent, enough probably to be the Government — and a bigger gap between Labour and National in Social Credit's year of triumph in 1984.

It is a beautiful picture and not a single person I met at the conference doubted they would hit the targets.

If there were private doubts, they were swamped in the euphoria of last year's success, this year's polls, Christchurch Central Terry Heffernan, the second-place "victor" there, went over big at the conference — and rising membership.

But there are some problems ahead that suggest young Lipa, a tender 26, will have his work cut out as president holding the show on course.

One is the rising membership.

For two decades, the league consisted of a small core of the really dedicated.

One delegate I spoke to estimated that in the old days roughly one in two members were really active. Now, he said, it was more like one in 10. The newcomers of the past two years were not showing the same degree of commitment.

Since achieving the 45,000 membership target in 1981 will depend at least partly on activating these members to enrol converts, this in itself poses an organisational problem.

Then there is the difficulty of ensuring such a big intake will be true to the orthodox Social Credit faith — or even care sufficiently about it.

Already, I hear, one electorate has been taken over by the people who have come in in the past two years, to the discomfort of those who ran it before.

Once before, back in the mid-1930s, the pure core of the then Social Credit Association watched with dismay as the Auckland Farmers Union and its ally, the Country Party, took over and distorted the movement.

A large membership could once again raise such spectres. Bandwagon jumpers have different ambitions from old believers.

There is another problem which no delegates I spoke to had thought through fully.

It is the destructive effect on the league of compromises that inevitably would follow the exercise of the "balance of responsibility".

Beetham has said that league members in Parliament would vote with the majority party or abstain on issues of confidence, to avert unnecessary instability.

David Steel's Liberal Party tried something like that in Britain and got lumbered with the blame for keeping an unpopular government in power. When the Italian Communist Party tried their "historic compromise" with the Christian Democrats, they suffered at the next election.

Beetham's Social Crediters would be constantly faced with the question of when to precipitate an election — with the attendant danger of being labelled irresponsible and possibly losing votes as an electorate sought stability.

Yet, if the league did not succeed in driving hard enough bargains and emerging with something firm to show the electorate — as help for farmers appeared last year to be a concession to Beetham's by-election win in Rangitikei — it would risk losing support as a useful vehicle for sectional interests.

Two other possibilities deal with one of the parties that committed itself to introduction of Social Credit monetary philosophy or between the two major parties which left Social Credit as official opposition — both unlikely at present.

But even if the league achieves its 1981 target, somehow manages to plot a safe course through the subsequent parliament and to minority government in 1984, that would bring its own problems.

The two other parties would be most unlikely to allow Social Credit to introduce its monetary philosophy. To do that, the league would get an outright majority of parliamentary seats.

And to do that, it would almost certainly have to abandon any idea of sectional representation — lose a bit of its dear idealism in the process.

Politics is not a game for the pure.

But such considerations were far from the happy minds of the happy delegates riding the wave at Auckland.

To make the point, I... a large "Give Social Credit a go" sticker on the side of my rental car.

Love Hertz, love Social Credit? No. Social Credit is still in the We Try Harder category.

Power-planners throw down the gauntlet

THE power-planners have made a last-ditch effort to vindicate their forecasting efforts in two reports to Parliament.

They have thrown down the gauntlet to the politicians over the future of the Clutha development, and lashed out at the other bureaucrats who are supposed to give them reliable social and economic data.

The planners say of the Planning Council and the Commission for the Future that "neither organisation is yet able to provide the necessary assistance for energy planning".

They say "the Government should be asked to provide economic forecasts each year, for the next succeeding five years, so that electricity forecasting can be more soundly based".

The call for more reliable data came in the form of a swan-song by the electricity planners.

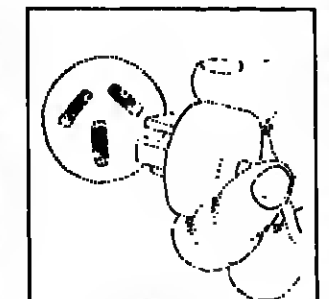
The reports — by the Committee to Review Power Requirements and the Planning Committee on Electric Power Development in New Zealand — were the last from these groups to be tabled in Parliament.

Next year, their work will be incorporated within a wider energy plan.

Thus, to the extent energy planners are handicapped by a lack of effective planning tools, their shortcomings will have wider repercussions.

The latest recommended delays to four different power schemes and the moth-balling of the $118 million Marsden B project raise several questions.

- What do you do when, after five years, you suddenly realise you have spent three times the amount you should have on power developments? The short answer: Load it on to the consumers' bi-monthly electricity bill, and pray for some large electricity users who will not lock you into unsatisfactory pricing agreements.
- But what if the situation is exacerbated by a "shock" Treasury 60 per cent price increase, which causes consumer-resistance to payment, and a drop in consumption?


ENERGY

- And what if that is further aggravated by lower than forecast population and housing trends, and a mild winter?

The long answer: Start abandoning capital works; mothball brand new generating plant and coal mines; drop your electricity conservation programmes; cut back the search for new sources of geothermal heat; start a media campaign to woo the multi-national energy-intensive industries.

It is now clear to everyone that New Zealand's "Maginot Line" of excessive power capacity, has its "guns" facing the wrong way.

Hugh Barr — a former Planning Council secretariat member — joined the energy debate just a few days before the tabling of the reports with the assertion: "Although the exact size of this overcapacity is debatable, this should not divert us from the conclusion that urgent action now seems necessary to reduce the drain on industry, society and foreign exchange . . . ."

Now with the DSIR, Barr presented a paper to the Operational Research Society of New Zealand. The paper notes that "... surplus capacity is a political and financial embarrassment, and makes it very much harder to negotiate a fair contract with the multi-nationals".

Nevertheless, the electricity generals, in the last few weeks have pointed to the possibility of a "third potline" at the Tiwai Point aluminium smelter, which raises the prospect of renewed bargaining with Comalco.

A pre-feasibility study for a ferro silicon industry could also make use of some of the $600 million in idle investment.

Barr argues: "Only time will tell whether energy intensive industry can be attracted at a profitable price. It may be better not to sell, than become involved in a cut-price-deal with few other benefits.

But consistent with their reputation for operating beyond the reach of public accountability on the development of surplus generating capacity and related projects such as Marsden B, Mere Mere and the Huntly coal mine, officials refuse to release details of energy-intensive proposals and developments.

And despite the fact that ALL consumers are propping-up the cost of the excess generating capacity, details relating to price for the three areas which account for 60 per cent of industrial electricity consumption — pulp and paper; iron and steel; aluminium — are seldom publicly discussed.

But Barr asks why should the consumer pay when forecasters make massive mistakes, if the consumer has no say in the forecasts?

He points out that when a private company over-invests, chasing market share, it runs the risk of bankruptcy. There seems no similar spur to encourage electricity forecasters to moderation. So what constraints should be introduced to ensure responsible action?

And if full information on past trends and forecasting methods had been publicly discussed, would this over-investment have occurred?

As New Zealanders brace themselves for another round of electricity price hikes — both bulk and retail — next April, increasingly industrialists are looking closely at the power bill from their local supply authorities.

Barr makes the point ". . . the interest bill may force (Electricity Division) charges so high that industry will find it more economical to generate its own electricity".

The competitive edge of Natural Gas is also making inroads into traditional industrial electricity consumers:—

"The provision of natural gas in South Auckland area will reduce any proposed industrial development in the board's area. Several major users of electricity on industrial loading are hopeful of changing over to natural gas before 1982," says the report of the Power and Finance Utilisation Committee.

The P and FU committee agonised over nearly 1200 sheets of paper before quoting from one supply authority: "In the first six months of 1978-79 our top 10 industrial consumers were down 10.4 per cent and the top 32 down by 8.1 per cent . . . ."

Many believe the power plan which was tabled in Parliament last week has not gone far enough in slowing additional capital investment into power and related developments.

The $600 million already committed, according to Barr, "represents an annual interest bill, currently, of $60 million, or half (Electricity Divisions') 1978 interest bill of $120 million".

"Gross errors in electricity forecasting inconvenience almost everyone, he says — "design and construction teams; home owners; manufacturers; farmers; exporters; supply authorities and the Electricity Division itself".

The time could never have been more important for a thorough re-assessment of forecasting techniques, as well as an associated shake-up of the agencies responsible for collation and dissemination of economic, population, housing and weather trends.

The report of the Power and Finance Utilisation Committee says: "Your committee earnestly suggests that the Government should be asked to provide an economic forecast each year for the next succeeding five years, so that electricity forecasting can be more soundly based".

The fact that the power generals couldn't secretly get to organise their "Maginot Line" of surplus generating capacity might also be reason enough to do it publicly in future.

The rights of the consumer could be further protected with the establishment of the Energy Advisory Committee (as outlined in the National Party Manifesto) which could reasonably expect independent audits of forecasting procedures.

Continued on Page 25.

He said their unavailability would cost the airline alone $19.5m and other tourist operators at least twice that amount.

The Tourist Hotel Corporation was knocked back by the Government earlier this year on a plan to manage a proposed international hotel in Auckland.

In its annual report tabled in Parliament last week, the THC says that the Government's decision not to allow it to expand its sphere of activity will have a major effect of the corporation's future profitability.

The profit for the last financial year was less than half the previous year's and the THC warns either tariffs will have to go up or standards drop if its to avoid a loss.

The one bright spot on the horizon is that the Sheraton Auckland project. A joint venture between the New Plymouth-based Devon Developments and the U.S. Sheraton hotel chain, it will be a low-rise, high-class international hotel.

But the Sheraton project seems to be the only major development coming close to the start of construction.

Even if Air New Zealand took the reluctant step of investing in a hotel, the lead time would be up to three years.

The need to invest in hotels could not come at a worse time for the airline, which has seen its profits drop, its cash flow being squeezed over the last few years, and with the $9 million loss on the DC-10 grounding to absorb.

But the airline may have no choice if its to maintain its record of passenger growth and contribution to the local tourist industry.

EDITORIAL

"YOU don't get it right always at the first time..." were the words of Colin McLachlan, Minister of Transport and long-time friend of the Prime Minister, at the time the road transport industry was being revolutionised, through the extension of the old 50-mile limit and the introduction of new road user charges. Prophetic words, as it turned out.

An inability to get things right the first time is perhaps the most distinctive characteristic of McLachlan's ministry.

Without looking comprehensively at his record, let's start with early 1977. The road code was then revised, new regulations were promulgated and a bewildered public found itself having to change old habits in a hurry to oblige a Ministry of Transport which insisted on reforms to ensure that traffic flowed more smoothly and driving was made safer. In the early days after the change became effective, there was confusion on the roads and the road toll increased sharply (a random fluctuation, according to officials who were reluctant to concede there was any connection with the new laws). Within three months, however, the minister conceded there was public concern, and announced a review which resulted in further change.

The Road User Charges Act became law at a time when there was a shortage of approved types of distance recorders. Thus many operators could not fit the equipment which the law made mandatory.

And when they could fit the gear, they could drive through a giant loophole which prompted a quick intervention from the Ministry of Works. Transport operators were warned not to beat the new system by using different hubometers when their trucks were unladen from those used when they were carrying loads. Otherwise, the ministry would seek to amend the law to either make the practise unlawful or to ensure that the rates paid were equitable with those paid by other operators.

A few months later the minister had set up a working party to examine further aspects of the road user charges at the behest of an industry which had struck a number of problems. The charges remain a matter of controversy.

Then there were the air safety regulations, promulgated in haste in response to a series of light aircraft accidents. Trouble was, they had serious consequences for topdressing and other commercial operators. So the Government agreed to take a second look.

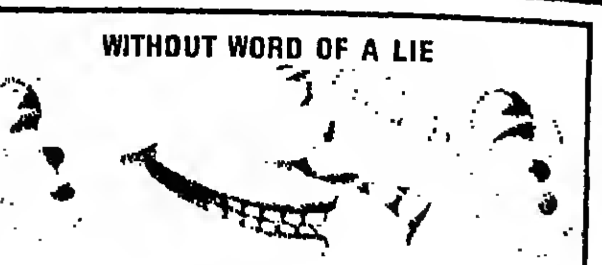
There have been other incidents. "Didn't they have oars or something?" was the Minister's classic defence of charges that rescue facilities at Auckland Airport were inadequate at the time an Air New Zealand Friendship crashed into nearby mudflats. He insisted the public had nothing to worry about and that safety standards were okay (although the rescue hovercraft was out of action and one of two rescue dinghies had to be rowed 400 metres to the crashed plane because its outboard engine was out of action).

The breakdown of the evidential breath test law is the latest bungle for which responsibility must be levelled at the hapless McLachlan. When amending legislation took effect, providing that enforcement officers may require a person to accompany them to any place where it was likely that an evidential breath test could be undertaken, the Ministry of Transport didn't have the equipment to implement the law. Now a host of motorists convicted of offences under the Act have had their convictions quashed and the ministry is still short of breath-testers. So further legal change is needed.

Some Ministers are likely to be retired in a Cabinet reshuffle. Those who go are apt to be aggrieved if McLachlan is not among them. It is unlikely they will share McLachlan's judgment of his own performance, asserted in 1977 in response to speculation he was finding the administration of the transport portfolio difficult. Any such suggestion, he declared, should be seen as "malicious and a transparent untruth".

Bob Edlin

WITHOUT WORD OF A LIE



BALLINS Industries Ltd announced at its annual meeting some three weeks ago that it would be getting into the fast food business.

But it did not mention who it might be taking over.

NBR understands that negotiations are going on between Ballins and Chicken Spot. While details are still in the cooking pot- it is likely that the large liquor company will buy some 60 per cent of the interest in Chicken Spot in October.

Chicken Spot is owned 76 per cent by Wescon Industries, which also produces Golden Coast chicken.

The remaining 24 per cent is owned by Barris Investments, Perth, West Australia, which holds the Chicken Spot franchise.

Ballins has some 27 pubs, 15 or 16 of which are in good locations to sell fast foods.

So the likely result is: Watch out, Cobb and Co — fast foods are on the way into the pubs.

Chicken Spot has nine restaurants and is building another.

What with Ballin's financial muscle and management skills, market shares in the volatile fast food industry are in for a shake up.

●

THE avowed purpose of the Commission for the Future's publications, as we have already reported, is to set the basis for public discussion about New Zealand's future.

Before this can happen, the public must first acquire the booklet, the first of which "Resources and Technology: Sustainability" has already appeared.

In Wellington, copies are available from only Government bookshops which are inconveniently located with only one in a city shopping street and which mostly close at 4.30 p.m.

The price, in excess of $3, is probably reasonable by today's standards, but if full-throated public discussion is needed, surely every effort should have been made to produce it at the lowest possible price and give it the widest possible distribution.

●

PRIME Minister Rob Muldoon — talking to the Auckland Manufacturers Association last week — drew attention to one aspect of economic relationships that is "frequently overlooked" ... perhaps because it is "the question of invisibles".

He explained that Australia was the biggest single source of invisible earnings to New Zealand, typically accounting for between 30 and 35 per cent of the country's total invisible receipts, or about 65 per cent of our earnings from visible exports of all kinds.

Right now, there is a deficit on our invisibles account in Australia's favour of about $150 million for the latest year.

The principal items in our invisibles account are travel and tourism, but "there is room for further co-operation, not just in the travel and tourist field, but in the financial sector as well".

Australian banks and insurance companies have been part of the New Zealand financial sector since the beginning of settlement.

But as Muldoon complained: "In the reverse direction, we have not had quite the same welcome, and that is an area where further co-operation between the two countries might well be advantageous. Consultation on investment patterns and policies of the respective governments may also lead to worthwhile results.

For the record, the figures from the Reserve Bank — for the year ended June 1979, — show a current account deficit of $453 million, a slight reduction on the deficit of $489 million recorded in 1977-78.

The deficit was made up of a surplus of $707 million on trade transactions (an increase of $205 million over the year ended June 1978). But there was an invisible deficit of $1160 million ($249 million higher than the previous year).

Invisible receipts rose by 11 per cent to $836 million — but they were more than offset by the 20 per cent increase in invisible payments to $1997 million.

Considering our export receipts increased by 20 per cent in that period, the dilemma posed by the invisibles is obvious.

So hey presto: the right sort of links with the Aussies might erase — if that's the word — at least part of the invisibles problem, it seems.

●

FOREIGN doctors by the charter plane-load?

The mind boggled when Health Minister George Gair claimed in Parliament that New Zealand needs a law to stop doctors flying in by the jumbo jet-full, registering, and flying out again.

So what has made the Land of the Long White Cloud a Mecca for the medical profession?

Not the amazingly high standard of living which doctors enjoy, or the discovery of an elixir of external youth. What makes us so attractive is our political stability.

When the going gets rough in Hong Kong, South Africa, and even Canada, according to Gair, a bunch of doctors gets together and charters a plane to New Zealand where they put themselves on the medical register as a safeguard against the bad times.

Those at Gair's office were a little more cautious than the Minister when he tried to check out the story. They hadn't quite heard of it in New Zealand, but it definitely had been in Australia.

And there were individual doctors coming as tourists on regular flights, particularly from South Africa, who were registering here.

Ken Hinds, Secretary of the New Zealand Medical Council, which was behind the introduction of the bill, said the charter flights were a ministerial flight of fancy. They had occurred "a year or so ago," and were organised by a tourist bureau in Hong Kong.

The extra gimmick — registration in both New Zealand and Australia — was offered as part of the package for a package tour for doctors who did indeed wing in, register, and wing out again.

The charters seem to have been a oncer, admitted Hinds. There had been none for some time but there were still many registrations of South African doctors coming in for a few days on tourist trips.

The bill provides for the removal from the register of any doctor other than a graduate of a New Zealand medical school who has not been a resident of the country for six consecutive months during the last two years.

At present there are ... doctors' names on the register but only 5341 doctors still in practice. The bill has been referred to the social services committee for open hearings.

●

DRIVERS who have done their bit and converted to LPG are finding that the paths of petrol saving are not paved with gold.

A motorist — querying the price of 20c a litre quoted in NBR last week — had a tale to tell. He left Wellington on Saturday morning with a full tank of LPG. Unable to fill up at Taupo (because it was Saturday), he switched to petrol and travelled on to Auckland.

LPG was as scarce as hen's teeth in the Queen city. The Auckland Gas Company had some but wouldn't part with it to a mere private citizen.

He finally struck LPG in Hamilton — at a cost of 38c a litre.

Topping up in Te Awamutu, the price was down to 30c a litre.

Back in Palmerston North, NBR was at last priced right with a litre at the quoted price of 20c.

A Wellington supplier — who sells LPG at 25.5 cents a litre — pointed out that distributors set their own price, in the absence of any statutory controls.

His company (Porirua taxis) is one of those buying direct from the oil company consortium, and can guarantee a yearly demand of more than 60 tonnes.

In other cases, fleet operators who use up to 12,000 litres of LPG a month lease installations from either Rockgas or NZIG for approximately 22-30c a litre, depending on total fuel consumption.

Such installations, which have a higher buying price than those who purchase direct from the consortium, would need to sell at higher retail price than those buying direct.

Rockgas and New Zealand Industrial Gases in some instances supply the private motorist. But neither is geared up to casual sales.

Prices vary according to whether branches have bulk storage capacity and transport costs. NZIG supplies from its Sewview branch at 23c a litre.

Delivery to either Rockgas, NZIG or consortium installations is by rail to the nearest railhead, then by road.

Bruce Hamilton, of Shell Oil, explained: All the LPG is owned by the Shell-BP-Todd, which sells it at a controlled price of 13.5 cents a litre to all purchasers throughout the North Island.

The margins put on by distributors depend on transport costs and whether the installations are supplied direct by the consortium, or lease installations from Rockgas or NZIG.

Fair enough. But 38c in Hamilton still seems a bit stiff compared with 20c in Palmerston North, neither so very far from Kapuni and both fair square on the main trunk line.

●

LABOUR Minister Jim Bolger seemed delighted to report the economic successes of his Government to the Financial Executives Institute the other day. And he had trade figures on his mind too (excluding invisibles, presumably).

He was heartened particularly to note the progressive attitude of manufacturers whose efforts have helped carve back the current account deficit.

Bolger reminded his audience that the current account deficit in the year ended May 1975 under the Labour Government had been $1060 million ("or an unbelievable 65 per cent of our total export earnings of $1635 million"). But in the comparable year May 1979, the deficit was $384 million ("a very manageable 9.5 per cent of total export millions of $4052 million").

This, Bolger enthused, was "a truly remarkable improvement" which had gone almost unnoticed by commentators on the New Zealand economy.

Bolger then went on to contrast progressive manufacturer attitudes with "this gem" from the journal of the New Zealand Post Office Association The Katipo.

The July issue of The Katipo obviously stung the Minister with advice that "to keep the national economy steadily rising in times of deflationary pressures, then the Government must compensate by increasing its own spending and even reducing taxation."

Or put another way, reduce taxation and increase Government, Bolger scornfully said of this basic piece of Keynesian advice.

"The article forgot to explain where the extra money was to come from," he snorted.

"The suggestion has all the appearances to me of an update of Social Credit's financial policy of promise and print."

Whatever the merits of The Katipo's advice, of course, it is in fact being put into effect by the Government.

Doesn't that explain the internal deficit in the last financial year of a whopping $1450 million? And doesn't this year's Budget provide for even higher Government spending? Tax cuts later, too?

Indeed, the internal deficit is still running at $1500 million or so — and while we appreciate that The Katipo didn't explain where the money will be coming from, we suspect that Sunny Jim can't throw much light on that curly one, either.

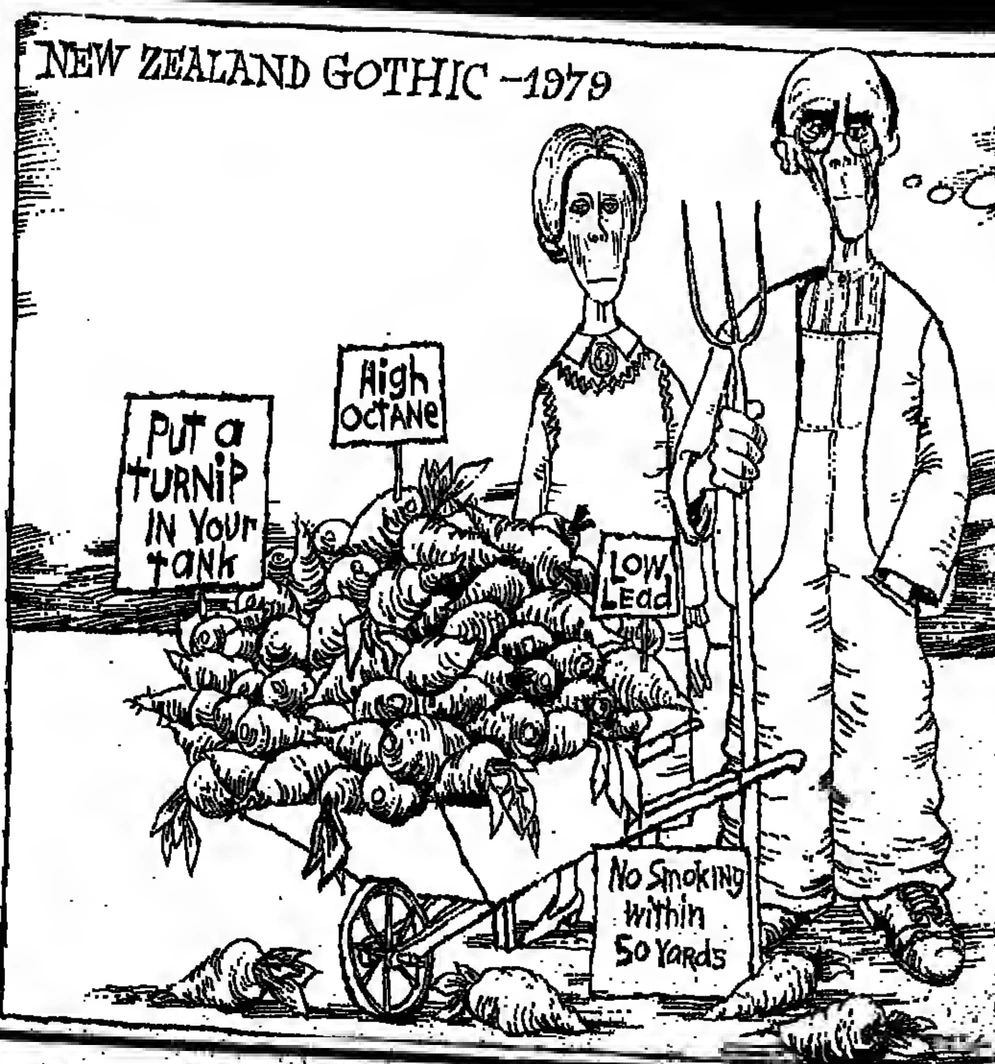
●

EXPLAINING the new batch of electricity price concessions for the South Island, Energy Minister Bill Birch said the Government envisaged them attracting forestry processing, mineral resource projects and — according to one report — "a further Comalco development".

That could be news to Comalco. The company we are told, has no intention of expanding its plant here.

Indeed, the Comalco board decided last week to double the size of its plant at Gladstone, in Queenstown. Initially, Gladstone was to have cost up to $300 million and produced 180,000 tonnes of aluminium. Now it will cost $1 billion and produce 400,000 tonnes.

BROCKIE'S VIEW



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Nationwide: energy policy priority overrules Air Services Act

CARGO carrier Nationwide Air International is still trying to get airborne again nearly four months after the earlier company went into receivership.

This time its fuel supplies that are holding up the start of operations according to Nationwide Director Matt Thompson.

Nationwide was before the Air Services Licensing Authority a fortnight ago trying to get a licence for an inter-island air freight operation using four Carvair converted DC4 freighters.

But the authority chose to believe the Energy Ministry rather than Nationwide on the question of whether there were enough stocks of fuel in the country for the airline to get a share.

Director John Rutherford says Nationwide will now pursue its other option of importing aviation fuel direct from Iran on its own account.

Rutherford told the authority that the Iranian National Oil company had assured him fuel was available at the world market price and they were happy to supply him with whatever quantity he wanted.

Nationwide had talked with Shell Oil over getting a special shipment of aviation fuel, but Rutherford told the authority he was not acting as an agent of Shell in his discussions in Iran.

He also produced a letter from Shell saying that the company was willing to supply Nationwide with fuel on normal commercial terms provided the Government allowed this.

And it was in this area that the nub of the argument lay.

It is Government policy not to allow new air services to be supplied with fuel while the current restrictions on fuel use are in force.

Although a director of the Energy Ministry, Andre Milkop, agreed in his evidence that stocks of avgas were currently twice normal levels, he said there was none to be spared for Nationwide.

The service proposed was a new one, according to Milkop, and although current stocks were healthy there was no guarantee of further shipments over the next few months.

Nationwide simply does not accept that further supplies cannot be obtained, but the company failed to satisfy the authority that it could secure supplies on its own account.

The company has now got the sanction of Energy Secretary Bill Duncan to try and get supplies.

Duncan said the ministry would not interfere. He said Nationwide would have to satisfy the Customs Department however, that it was entitled to import and store it, as well as getting Reserve Bank approval to pay for the fuel.

Thompson would not be drawn on how Nationwide was going to do this but remained optimistic that all the obstacles would be overcome.

Should Nationwide leap these barriers it will then be able to reapply to the Air Services Licensing Authority for another hearing on its application proper.

That will mean another hearing and all the previous objectors — Air New Zealand, Safe Air, Mount Cook James and the Railways — will likely object again.

But the authority's decision not to allow the application to proceed does raise some interesting questions about the role of quasi-official Government bodies and their relationship to official Government policy.

Thompson said the authority's decision that the Government policy of no fuel for new services meant no hearing on the application for a licence need take place, made a farce of the whole system.

"All we need to do, if that is the case, is make future licensing applications to the Energy Ministry and we'll have real political control of business in this country."

"We don't need a licensing authority at all, if the Energy Ministry is going to make the real decisions," he said.

On this occasion the authority took the view that Government policy over ruled the requirements of the Air Services Act for a hearing of licence applications.

This was despite the submission from Nationwide counsel R A Houston to let the hearing proceed, and if a licence were granted, for Nationwide to sort out fuel supplies later.

Authority chairman Tiller did not agree.

Despite the shaky financial history of Nationwide's various backers to operate an air service. Thompson would seem to have a point.

While it may be a matter of legal nicety who is right in the Government policy versus judicial procedures debate, there is widespread concern in the aviation industry, that a licensing authority of part-time retired people may not be the best way of ensuring efficiency, and competition.

Indexed wage rates move sets Govt a poser

by Colin James

THE INDUSTRIAL FRONT

THE union movement called the Government's bluff last week on wage-fixing with a bid by the engineers union for wage rates indexed to inflation.

If the union obtained such an arrangement, it would have far-reaching implications.

The Government could find itself obliged to intervene once again in wage-fixing to hold together its economic policy, but at the risk of confrontation.

The engineers' move follows the elimination of the general wage order system.

Broadly speaking, general wage orders took care of the cost of living element of wage increases. No cost of living arguments could be introduced into award negotiations on wage rates, which were based on other criteria.

The removal of the general wage orders by the Remuneration Act has pushed recovery of cost of living increases back into award negotiations.

The Remuneration Act allows the Government to make general wage adjustments and one was made last month for 4.5 per cent covering the movement in the consumer price index for the second quarter of the year.

But there is no commitment to any future adjustments. The Government said it wanted discussions with the Federation of Labour on a "minimum standard of living" to include wage rates, income tax and benefits.

No substantive discussions have taken place and none look likely to take place in the near future, unless there is a change of heart.

Unions now preparing to renegotiate their wage rates have therefore been placed in the quandary of deciding what to do about recovering cost of living increases.

The first union to face the issue was the engineers. They are in the middle of a two-year award, which provides for wage rates to be adjusted by negotiation now.

Two precedents were before the engineers.

In May, the Federation of Labour conference passed a remit from the electrical workers suggesting longer-term awards with wage rates indexed to inflation during the term of the award.

Then in July an advocates conference had before it a paper on indexing, including the possibility of indexing net after-tax wages — which would leave the Government the responsibility for determining gross rates through manipulation of income tax rates.

In addition, engineers secretary Jim Boomer is familiar with American contract systems under which immediate increases at the beginning of a contract are followed by automatic increases linked to price movements, but less than the whole movement.

Last week the engineers suggested something similar to metal trades employers — a catchup to cover past cost increases, productivity increases and so on, and a formula for recovering future cost of living increases.

They proposed to their employers that they should get the Arbitration Court to clarify whether "an agreed predetermined automatic formula for adjustment in wage rates for inflation (can) be included in an award" at 12-monthly or more frequent intervals.

They wanted to know whether indexed rates could legally be introduced in addition to an agreed increase at the start of an award.

Whether the Arbitration will find for the union is uncertain.

But a pointer can be found in its registration earlier this year of an agreement between the Auckland district local authorities officers and the Waipa County Council which tied wage increases over the next three years.

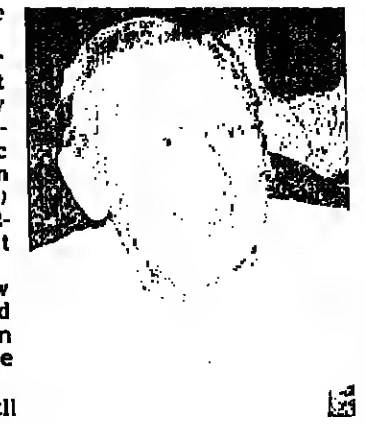
Employers and the Government felt they could live with the Waipa County Council precedent because it covered few workers and affected no other awards.

But the engineers, whose rates influence many dozens of other awards, are a different matter.

Employers oppose simple indexation because it locks wage rates into an inflationary spiral.

They feel other elements should be taken into account — productivity changes and changes in terms of trade, for instance. They are also concerned about the possible disruptive effect of indexed and non-indexed systems living side by side.

The drivers, for example are not seeking an indexed award.



JIM BOOMER...familiar with contract system

So metal trades employers are unlikely to agree to indexation, whatever the Arbitration Court decides.

This leaves open the possibility of the union settling an immediate increase and putting the cost of living question — the indexation question — back to the court.

Since both employers and the Government have been trying to encourage unions back to the court, such a move could hardly be resisted.

And under the Remuneration Act, the Government is committed to upholding court decisions on wages.

Some knotty questions therefore face the Government:

- Should it once again step in and stop the Arbitration Court from hearing the engineers' application?
- If it allows the court to hear the case and possibly find for the engineers, will it then interfere with any subsequent settlement?

Either course would risk confrontation with an increasingly united and frustrated union movement.

Neither course is attractive for a Government that has already run into widespread criticism — including from the bipartisan Industrial Relations Institute — for the interference contained in the Remuneration Act.

It does have an alternative: to offer a deal based on national orders to cover the cost of living element and on changes in tax rates.

There is one attractive element in the switch to a new base for settling wage rates in awards.

It would probably break the tradesman's ratchet, under which increases feed from private sector to state sector and back to private sector in a self-fuelling spiral.

The ratchet, an innovation of electrical workers secretary Tony Neary, has largely determined craft union wage rates for some years.

But it would have come under pressure this year anyway. The drivers have already been offered more than 10 per cent, which is more than the ratchet was expected to yield.

Thus, I understand, the electrical workers were themselves considering switching to a longer-term award with indexed wage rates. This time, the engineers got in first.

Air fare negotiations stumble to a stalemate

NEGOTIATIONS between the New Zealand and British Governments and their respective airlines on a new air fare package to London are at a stalemate.

And the impasse which has been reached is likely to remain while the British and Australians cannot resolve their differences with the Asean countries.

The cheap fares agreement between Britain and Australia excluded participation from other airlines which had operated on the route. Britain would like to see the same policy applied to travel from this country to London and Europe.

New Zealand is taking the view that our existing agreements which allow Pan Am, Singapore Airlines, Qantas, UTA as well as British Airways to sell the full range of fares should not be changed just to accommodate the British.

Australia was in deep strife with the Asean countries for more than a year, particularly Singapore, over the cheap fare arrangements. And while some changes have been made which allow limited participation by Asean carriers, the Asian countries are still not satisfied.

Fare on the Kangaroo route between Australia and Britain are set by the two Governments. And since very strict control of the available capacity on an air route is at the heart of the Australian Government's new aviation policy, the right to carry the cheap fare traffic is confined to Qantas and British Airways.

That suits both carriers who operate almost the same equipment on virtually parallel routes to London — and only in one direction — through the Middle East.

New Zealand offers three routes however: Through Los Angeles, Singapore and Hong Kong: And in each case feeds its passengers into another airline at those points for the balance of the trip.

This explains New Zealand's need to share its traffic out of this country to London in order to secure onward carriage for Air New Zealand passengers.

One option being canvassed earlier this year was to make a single route through Los Angeles. But because this would have excluded the most outspoken critic of the British Australian deal — Singapore, the idea faded away.

Now the impasse seems likely to remain until the British, Australian and Asean Governments come to an acceptable arrangement.

The British seem immovable in their view that there must be no deal with New Zealand which would embarrass them in their dealings with Asean nations.

Although the airlines — Air New Zealand and British Airways — could likely come to quick agreement on fare levels, New Zealand has not yet found a way to sway the British.

The British want New Zealand to keep out other carriers. But New Zealand view says the British can exclude any other carrier from participation when that carrier applies to the British Government for the right to be in on the new package.

The stalemate has now lasted eight months and the busy season for travel is almost upon New Zealand, but with fares competitive with Australia not yet in sight.

Art chief calculates value of cultural assets

by Rae Mazengarb

STRAITENED economic circumstances, together with inappropriate and makeshift Government moves, are having a depressing effect on the arts in New Zealand . . . yet from a business point of view, the arts could provide some of the answers to the country's economic troubles, if fostered and used intelligently.

That was the message which the deputy chairman of the Queen Elizabeth II Arts Council, David Gasgoigne, delivered to members of the Wellington Rotary Club.

"As with everybody else, the Arts Council has had to consider the decreasing value of the dollar, unemployment, the energy crisis, and one or two other man-made complications, such as the imposition of sales tax and its effect on a highly productive and self-motivated sector of our population," he said.

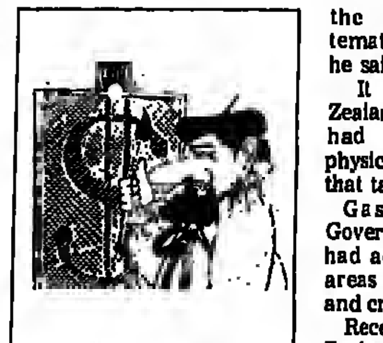
The energy situation would have a marked effect on mobility.

People would not be so free to travel to the city centre or to neighbouring large towns to enjoy centralised cultural activities.

Until now, the suburbs had offered limited scope for such activities. But this year, Arts Council sought and obtained a special grant from Government to develop the arts at a neighbourhood level, he said.

Unemployment had also hit the arts. Yet as a human resource, artists had the potential to return significant economic benefits to this country.

Along with race horses — wich reap export returns — New Zealand had produced some fine musicians, Gasgoigne pointed out.



ART SHOP

"Now if New Zealand was able to secure just one per cent of the world record music market it would return something like $230 million a year to New Zealand. That is the potential of the international cultural market," he said.

It was a potential New Zealand could tap because we had the talent and the physical resources to utilise that talent.

Gasgoigne criticised Government policy which has had adverse effects on three areas — boatbuilding, records and crafts.

Recent successes of New Zealand yachtsmen overseas in locally designed boats paved the way for promotional and export opportunities for New Zealand boat designers and builders, he said.

But the Government's recent sales tax levy on boat-building was a move which was hardly encouraging for the industry.

Referring to recorded music, Gasgoigne said, "Instead of encouraging our local talent, the continuance of the 40 per cent sales tax on records — including those locally produced — helps to drive our talented musicians overseas, mainly to Australia".

The export potential for recorded music is enormous, yet one of New Zealand's best pop groups, "Dragon", which sold half a million copies of its most recent album, works in Australia.

That was just one of many examples of New Zealand being deprived of some millions of dollars by way of royalties, copyright fees and other returns.

"It is sad that one of the major factors which leads to their departure is the debilitated condition of the local recording industry. And the high level of sales tax helps to keep it in that condition," he said.

Turning to the crafts, and the recently imposed sales tax on tableware, he said it is too easy to dismiss the tens of thousands of people involved in the crafts as mere hobbyists.

Rather the crafts should be looked at in wider terms — in terms of generating employment, the use of natural raw materials and in terms of selling power of an upmarket product of a standard which can compete internationally.

He described the sales tax issue as "one of the worst examples of ad hoc decision making in an economic area".

"The taxes seem to represent an improperly researched and makeshift move which, while it may produce a little more revenue, also has the effect to damage the creative spirit and enterprise which we so keenly need to foster. These across-the-board decisions, on certain commodities, do not provide the positive fiscal incentives required to assist in the process of restoring our economic health. In fact they tend to hamper it," he said.

Gasgoigne talked about the arts in the context of tourism, saying most of the potential of this area is being ignored.

"Industry and business have a central role to play in changing this situation through using the arts as a part of the environment and the products which they create. The intelligent use of the arts works, in the board room and in public places of business . . ."

Tough economic times are no excuse for the neglect of talent and initiative, he said, warning, "to ignore our cultural assets is to distort and to curtail our capacity for future growth".

Act redistributes wealth without political fuss

by Jack Hodder

The most dramatic redistribution of wealth ever experienced in New Zealand is currently taking place.

With a minimum of political fuss. It consists of the operation of the Matrimonial Property Act, which came into force in February 1977, together with the continued increase in marital breakdowns.

The deficiencies of the language used in the Act have become legendary in legal circles.

This has led to a variety of interpretations of particular provisions by Magistrates and Supreme Court judges.

The final shape of the Act is only now being confirmed by a series of decisions from the Court of Appeal.

The first five decisions from that court were given at the end of May. They made it perfectly clear that in virtually any situation the matrimonial home and the chattels associated with it are to be divided equally between separated spouses.

The most recent decision, Reid v Reid, given at the end of August clarifies the law relating to property other than the matrimonial home and chattels.

The result of that case meant that the appellant wife was better off to the tune of at least $200,000 and has a clear message for all men and women of property.

To place this decision in a proper perspective, it is necessary to recall a little of the scheme of the Matrimonial Property Act.

The full title is significant: An Act to reform the law of matrimonial property; to recognise the equal contribution of husband and wife to the marriage partnership; to provide for the just division of the matrimonial property between the spouses when their marriage ends by separation or divorce, and in certain other circumstances, while taking account of the interests of any children of the marriage; and to reaffirm the legal capacity of married women.

Under the Act, all property of either spouse is divided into "matrimonial property" and "separate property".

The Act is not concerned with separate property (it belongs outright to one or other spouse), but further divides matrimonial property into "the matrimonial home and family chattels" and "other matrimonial property".

The spouses are to share equally in the matrimonial home and chattels unless the marriage is one of short duration (generally less than three years) or there are extraordinary circumstances which would make equal sharing repugnant to justice.

If either exception applies, (and the Court of Appeal decisions in May indicate that they rarely will apply,) the matrimonial home and chattels will be divided in accordance with the contribution of each spouse to the marriage partnership.

"Other matrimonial property" is to be divided equally unless the contribution of one spouse to the marriage partnership has clearly been greater than that of the other.

In the Reid case, the parties had married with few assets and separated after 21 years and four children. There were three categories of property involved.

First, the matrimonial home and chattels (valued at approximately $112,000 at the date of the Supreme Court hearing).

There was no real dispute over the equal division of these.

THE LAW

Then there were assets (valued at around $485,000) which represented the sale of the husband's successful business.

He had started this business a few years after the marriage, apparently with a small cash advance from his mother and some of his old tools. The Supreme Court judge ruled that this was separate property in which the wife had no share.

Finally, there were other assets (worth around $77,000) which the judge ruled were matrimonial property and in which the wife was entitled to a one-third share.

So at the end of their day in the Supreme Court, the husband emerged with entitlement to $592,300, the wife to $81,700.

In the Court of Appeal there was no dispute at all over the equal sharing of the matrimonial home and chattels.

Attention was focused on the second and largest category of assets: the proceeds of the sale of the shares in the husband's company (all but one share having been held by him).

The first major issue was whether these assets were separate or matrimonial property.

Counsel for the wife relied on section eight of the Act which reads:

"Matrimonial property shall consist of ... (e) Subject to subsections (3) to (6) of section 9 and section 10 of this Act, all property acquired by either the husband or the wife after the marriage, including property acquired for the common use and benefit of both the husband and the wife out of property owned by either the husband or the wife or both of them before the marriage or out of the proceeds of any disposition of property so owned".

Sections 9 (3) to (8) and 10 were not relevant and the words emphasised were relied upon.

Counsel for the husband relied on s 9 (2) of the Act:

"Subject to subsection (8) of this section and to sections 8 (e) and 10 of this Act, all property acquired out of separate property, and the proceeds of any disposition of separate property, shall be separate property".

In the Supreme Court, the judge had accepted that the husband had created the company out of his separate property and applied s. 9(2) to reach his conclusion.

The three judges on the Court of Appeal were unanimous that the wife's argument was correct. Section 8(e) meant what it said: the shares in the company were clearly acquired after the marriage and were thus matrimonial property. The clear language outweighed the argument that such a literal interpretation left both s 8(2) and the last part of s 8(e) without any real meaning.

Mr Justice Richardson listed five situations in which property acquired during marriage will be separate property, but stressed that any dealing with this property renders it matrimonial property.

Mr Justice Cooke spelled out the major implication:

"If separate property is realised during the marriage and the proceeds placed in a new investment, it becomes matrimonial property".

And Mr Justice Woodhouse pointed to the only way out of such implications: an agreement between spouses as to the ownership and division of their property (including future property) under s 21 of the Act.

The second major issue was as to the proper division of the now enlarged "other matrimonial property".

Two sections were relevant.

Section 15 provides that such property shall be divided equally unless the contribution of one spouse to the marriage partnership has clearly been greater than that of the other (in which case the division is in accordance with the contributions of each).

JIM McLAY...solve this one

Section 18 lists matters which constitute contributions to the marriage partnership. These include: the care of children; management of the household; the acquisition or creation of matrimonial property; and the provision of money, including the earning of income. Section 18 also states that there is to be no presumption that monetary contributions are of greater value than non-monetary contributions.

The Court of Appeal was divided on the proper division of the property. All three judges analysed the language of sections 15 and 18 and found a substantial presumption in favour of equal division.

Justices Woodhouse and Richardson both made the point that the Act was "social legislation", not technical property legislation. Both stressed that the relevant contributions were to the matrimonial partnership, not to the creation of matrimonial property.

But both recognised that the husband's extraordinary business skills justified an unequal sharing. They both measured the contributions of spouses in terms of the other spouse and concluded that the husband's contribution might be reckoned one and half times as great as that of the wife, that is, the appropriate division was 60:40.

Mr Justice Cooke, in the minority on the point, would have ordered a 75:25 division. He did not choose, as did his judicial brethren, to analyse such a division as necessarily meaning that the husband's contribution was reckoned three times as great as that of the wife.

The Court ordered the assets to be revalued, but using the Supreme Court valuations the final property division was $393,200 to the husband, $280,800 to the wife.

The six decisions so far given by the Court of Appeal have clarified many of the areas of uncertainty in the Act. Whether they have captured the judicial Holy Grail, the "true legislative intent", will best be measured by the terms of the inevitable amending legislation.

Over to you, Jim McLay.

LETTERS

Appeal allows discretion

REFERENCE is made in Geoffrey Palmer's article to the use of manuals in the Department of Social Welfare (NBR August 8). The article goes on to state:

"The effect of such a practice is that the department is administering a type of "secret law", to which the people whom it affects have no access."

That statement gives an incorrect picture of the true situation. There is no "secret law" operating in the Department of Social Welfare as I shall explain.

The Social Security Act provides for the Social Security Commission to delegate its powers to officers of the department and for such delegations to be made the subject of conditions or general and special directions. The Act provides, however for applicants and beneficiaries to have a right of review to the Social Security Commission of any decision made by an officer exercising delegated powers. When decisions are communicated to applicants or beneficiaries they are informed of this right of review.

In deciding any case submitted to it, the commission is required to and does exercise its discretion unfettered by any conditions or directions which it may have applied to its delegates. If the applicant or beneficiary is dissatisfied with the decision of the commission itself there is a right of appeal to the independent Social Security Appeal Authority which may exercise all of the discretions available to the Social Security Commission.

Decisions of the commission and of the Appeal Authority must comply with the published law contained in the Social Security Act or its regulations. There is a further right of appeal to the Supreme Court on questions of law concerning decisions by the Appeal Authority. There is thus no "secret law" operating in the mode suggested in the article.

The reason why the department's operating manuals are not available to the public is because they incorporate many protective and verification procedures which are designed to prevent fraud and error. National Business Review itself in a recent issue drew attention to the extent to which our social security scheme is now unfortunately subject to fraudulent assault.

S J Callahan
Director-General
Social Welfare Department

Gas option commits sin

THE article "Synthetic gasoline option stacks up support" (NBR August 1) contains a disturbingly large number of incorrect or misleading statements, largely attributed to Mr McDonald, President of the Motor Vehicle Manufacturers' Association. Taking these as they appear in the article:

● The plant BP is proposing for $400 million is not a methanol plant but a methanol-ammonia-urea plant with two-thirds of its production going for export (that is 1000 tonnes-day of urea and half of the 2000 tonnes-day of methanol), with the other third (1000 tonnes-day of methanol) for blending as M15 for New Zealand. It should also be remembered that a Mobil plant would first require a methanol plant and then about another 50 per cent further in capital cost to produce synthetic gasoline. Furthermore, in the process it would lose another 10 per cent of the energy of the methanol producing a fuel which, while completely compatible with the existing transport system, is inherently a lower grade transport fuel than methanol itself.

● The long term effects of methanol blends on car engines and parts have been investigated overseas and have been shown not to be a problem.

● Methanol is certainly being considered very seriously elsewhere, mainly in European countries. Sweden and Germany both have very active programmes which could lead to the introduction of the blends nationwide in these countries, probably by 1983. The blends are already distributed to the public in a limited way in Germany. Brazil, which already has ethanol blends distributed to the public, also has plans to introduce methanol blends in the near future.

● The statement that "to turn to methanol at this stage would be to cut New Zealand off from the mainstream of engine development and in effect halt engine technology where it stands" is completely untrue. In fact it now appears that much of the new and significant engine development will be toward the development of alcohol-fueled cars (Volkswagen, Ford, General Motors and Fiat all have engines designed to run on either pure methanol or ethanol). In the United States, while the blends currently being marketed are ethanol blends, considerable research and developmental work has been done on methanol blends and it is almost certain that any further engine designs will produce cars that are at least compatible with methanol blends.

● Regarding the affect of methanol blends on fuel system components, studies over the last five years in New Zealand (involving now hundreds of vehicles) have shown that the number of vehicles with any component that will be affected is very small (probably less than 10 per cent). These components (for example, polyurethane fuel lines, lacquer-coated floats, a particular model of fuel pump diaphragm) can be easily identified and in most cases very inexpensively replaced. Certainly an active programme of replacement of suspect parts is required but could be accomplished in the next two to three years before a methanol plant came on stream. The fuel tank coating referred to by Mr McDonald is "terne plate" and is present in some newer makes of cars. It is indeed stripped away by the methanol blends but this has been shown to cause no problems.

In conclusion, the use of methanol as a low blend (10-15 per cent methanol) would be one of the most economic, safest, and energy efficient uses of Maui gas. Further it would be completely viable to introduce the blends nationwide by the time a methanol plant could be built (3 to 4 years). It is completely possible that during that time world trends would make the high methanol blends (greater than 90 per cent methanol) the best long-term future option for New Zealand. Alternatively, further improvements in Mobil type processes (for example, a catalyst or system of catalysts which would by-pass methanol completely) are very likely and could improve the economics of the process, making it the preferred route. In any case any massive commitment to the present Mobil process runs a very real risk of putting New Zealand truly out on a limb — 'cut off from the main stream of energy developments' in the rest of the world and paying for it very dearly indeed.

E E Graham
Senior Lecturer
Canterbury University

Lands Minister holds power

I WAS interested in Ray Mazengarb's summary (NBR August 8) of Nelson's Waahi Taakaro dispute. The Minister of Lands is reported as saying he doesn't intend to revoke his gazetted notice that Waahi Taakaro is not a reserve because he doesn't have the "power" to do so. Under the Acts Interpretation Act 1924 s25 (j) he most certainly has the "power" to do so.

Margaretha Gee
Nelson

Unemployment: sign of an ill spent youth

Economics Correspondent

THE ECONOMY

GANG violence has erupted into the headlines of our nation's newspapers. Fearful citizens are blaming the gangs for destroying the harmony and peace of New Zealand life.

But the real violence to the New Zealand way of life is not the noisy, sensational event of police being bashed with chains. It is the high level of unemployment, especially among the youthful age groups.

Of the over 26,000 registered as unemployed in July 1979, over 50 per cent were aged under 21 and nearly 80 per cent were under 30.

According to statistics collected by the Organisation for Economic Co-operation and Development (OECD), New Zealand has one of the highest rates of youth unemployment in the developed world.

In August 1977, the total number of unemployed, including those engaged in the Government's job creation schemes was 15,500. Today, only two years later, total unemployment has reached nearly 50,500.

And the number of young people registered as unemployed is larger than the total number unemployed two years ago. Those registered as unemployed are looking for work, but have no other jobs.

As increasing numbers of employers close their doors in the faces of young job applicants, youths must look elsewhere to find their niche in society.

With so many young, healthy bodies around with nothing to do, the gangs are finding it quite easy to increase their numbers.

In 1977, the Government tightened up aggregate demand and allowed the number unemployed to grow as a means of restructuring the economy.

Poorly timed contractionary fiscal policy caused the numbers of unemployed to grow faster than the Government had bargained on.

While the Government reversed its stance in October 1977, introducing pump priming measures to stimulate the economy, it was too late.

Unemployment continued to rise during 1978 and has not been much below 50,000 at any time this year.

The paradox is, that while the Government has consciously courted rising unemployment as an economic tool for keeping inflation down, reducing the balance of payments deficit and making industry more efficient (less labour intensive), unemployment is seen by many as the fault of the unemployed person.

As Douglas Graham, an Auckland lawyer who plans to seek the National Party nomination for an Auckland seat said recently:

"For the unemployed, there needs to be created a sanction for them to earn it. I believe it is in their own interests ... being cruel to be kind. To pay an unemployed person and allow him to sit back and draw almost as much as the person who is working is madness..."

Graham lays down a hard line.

He states: "If a person cannot get a job ... there must be other areas where he could be usefully employed in his own interests and those of society as a whole. There are plenty of uses to which unemployed labour could be directed..."

Ever since deflating the economy too much in 1976-77, the Government has been trying to come up with bright ideas for gainfully employing the unemployed. Several programmes have been introduced, some specially aimed at reducing unemployment among young people and school leavers.

According to this year's Budget, the Prime Minister believes "there is only limited scope for reducing unemployment through fiscal and monetary measures to expand demand, as excessive demand would fuel inflation and undermine the balance of payments".

So how does the Prime Minister plan to achieve the objective of full employment, an objective which he says the Government is committed to?

First the Budget includes structural and demand management policies which are aimed at promoting "productive employment of New Zealanders". Second the Government has supplemented these policies with job creation programmes.

Job creation schemes, which were intended to be temporary when introduced in late 1977 and early 1978, were extended in this year's Budget as the Government wrestled with its impossible self-set task of increasing employment without expanding demand.

By far, the largest number of unemployed are engaged in a job creation scheme called the temporary employment programme, which involves people in essentially short-term public sector project work.

Work is made available to the unemployed person in Government departments, with local authorities or with education authorities and hospital boards. In July, 17,586 people were involved in temporary public sector jobs.

Other job creation schemes include the student community services programme to be operated over the long vacation in 1979-80 and private sector employment schemes first introduced in 1977 designed to support the creation of additional jobs in both the farm and non-farm sectors. These schemes involved 7666 people in July.

Last year the Government spent nearly $100 million in its programmes to support employment. This year, it intends to increase spending on these schemes by over $20 million to nearly $125 million.

Last year, the Government spent nearly double the amount on job creation than originally planned, budgeting $58 million and spending $100 million. This could happen again this year with unemployment creeping upward.

Less is spent on the unemployment benefit than on job creation schemes. Although the number of registered unemployed is about equal to the number engaged on temporary employment projects, the Government plans to spend half as much on the unemployment benefit this year as it plans to spend subsidising temporary employment. Only $63 million has been appropriated for this purpose.

Only a third of the total unemployed are paid while not engaged in some form of employment.

Of the over 26,000 registered as unemployed in July, a little over 17,000 were receiving the unemployment benefit.

About a third of those unemployment beneficiaries were less than 20 years of age. Although there are increasing numbers of teenagers on the dole, the proportion of teenagers receiving the dole is not as great as the proportion registered as unemployed.

Expenditure on unemployment will get close to the $200 million mark this year. This expenditure treats the symptoms of unemployment, but it will not cure the unemployment illness. Only an improvement in economic growth will bring the number of unemployed down.

And this economic growth must be more than a temporary spurt. The improved economic climate in the first half of this year only caused a slowing in the growth of unemployment.

Even the lift in retail trade turnover has not encouraged businesses to expand their employment numbers and it looks likely that the number unemployed will leave the 50,000 mark behind later this year.

Migration may be helping to keep the number of unemployed down.

But unemployment would not necessarily be greater were the numbers migrating out of the country smaller.

The loss of people through migration may depress job creation because the migrants often possess the knowledge, skills and initiative necessary to generate work for others as well as themselves.

The migrants do represent a certain amount of demand for domestically produced goods and services. With so many still leaving the country, some of the demand led pressure on inflation should be escaping as well.

This provides the Government with some scope for reducing unemployment through expansionary fiscal measures.

Government spending on job creation programmes and unemployment benefits, represents a minute iceberg tip of the total costs to the country of unemployment.

For one thing, gang violence costs a substantial amount in destruction of property and in fitting out the police force for controlling gang activities. Many of the other costs of unemployment such as the damage to New Zealand's social cohesion cannot be measured in money terms.

In the long run, it may be cheaper for the Government to stop trying to patch up the unemployment problem and to begin introducing fiscal and monetary measures to stimulate industrial growth.

Excessive demand is unlikely to fuel inflation by very much and the balance of payments deficit may rise by less than the $200 million Government now spends on unemployment band aids.

Who knows, if the gangs turn their excessive energies to exporting, the balance of payments might even go into surplus.

AHI fields teams on both sides of milk battle

by Warren Berryman

A SURPRISE contender has joined the battle of the bottle — milk bottles versus cartons — being heard by the Government Caucus Committee.

The battle lines had been drawn with UEB Industries and their cardboard Pure Pac carton on one side and AHI Glass with their reusable 100 trip milk bottle on the other.

Backing UEB have been some milk treatment and supply stations and retailers.

Backing AHI Glass have been the environmental lobby, who favour the recyclable bottle over the one-trip carton, and milkmen who fear the carton will mean the end of home milk deliveries.

AHI Hygrade Packaging Company has presented its own submissions to the Caucus Committee — and it favours cartoned milk.

In many respects, Hygrade's arguments paralleled those presented by UEB:

● Cartons would boost flagging milk sales by offering the industry diverse modes of packaging suitable for diversified milk products.

● Cartoned milk would be acceptable in fast food outlets and supermarkets where bottled milk is now shunned because of the time and cost involved in handling bottle returns.

● Cartoned milk, particularly flavoured milk, would generate additional milk consumption.

● Both the milk industry and the consumer should be given a free choice of containers.

Thus Hygrade joined AHI's chief competitor, in a challenge to AHI's glass returnable milk bottle.

Hygrade marketing manager Rob Mouncey explained by saying it had always been AHI policy to allow a great deal of autonomy and competition among member companies of the group.

Mouncey pointed out that Hygrade developed bag-in-a-box wine casks, than sold them in competition to AHI's glass wine bottles.

"Hygrade has until now remained in the background in this debate", Mouncey said.

"But we now feel our voice must be heard alongside the other views being presented."

Mouncey said he did not want to publicise the cartoning system Hygrade might use, but his company had licensing agreements with overseas companies to produce cartons for both UHT (ultra high temperature) milk or pasteurised milk.

Hygrade is no newcomer to the cartons-for-milk concept.

Mouncey said his company, had been looking at milk packaging for 18 months and twice had made submissions to the Trade and Industry Department, but failed to gain approval for milk carton schemes.

Hygrade is involved with the Dairy Board and the New Zealand Co-op Dairy Company's UHT milk plant at Takanini.

This company is working with the Waikato Milk Corporation to produce a 20 litre bulk bag in a box milk container-dispenser to be sold to school tuck shops and dairies.

In addition, Hygrade will be supplying bag-in-a-box milk containers for the export of frozen milk from the East Tamaki Dairy Company.

Exports of frozen milk to South-east Asian markets are expected to reach more than 1 million litres a year.

Mouncey said Hygrade's interests went beyond the immediate prospect of cartons for flavoured milk to the development of other specialised milk products.

Industry sources had informed Hygrade that they were interested in a single-trip container — preferably a polyethylene coated cardboard carton, he said.

Hygrade argued in its submissions that the advent of flavoured milk did not have an adverse effect on white milk sales as evidenced by overseas examples.

The "Big M" marketing programme in Victoria Australia, launched in October 1977, had the effect of increasing milk consumption by 8.8 per cent in 1978 while having little or no effect on white milk consumption, the submission said.

"Big M sales" in Victoria jumped from just over 5 million litres in 1977 to more than 37.5 million litres in 1978.

The major impact was made on the soft drink market.

Hygrade also argued that while cartons might be more expensive than glass bottles, and the introduction of cartons to this country would cost considerable foreign exchange, these costs would be offset when the consumption of flavoured milk in cartons displaced the consumption of soft drinks packaged in even more expensive metal or plastic containers.

Hygrade based this argument on the assumption that flavoured milk would take 5 per cent of the total milk market. The total per capita milk consumption last year was 132 litres.

Five per cent of the market for 500 ml cartons of flavoured milk sold at 30 cents each would represent a market of about $12 million, and about 20 million litres in consumption.

Cartons for this milk would require about 1000 tonnes of plastic coated cardboard priced at about $775 a tonne This amounts to about $750,000 a year.

Add to this imported cost $50,000 or so for a flame-sealing machine for Hygrade to make the carton sleeves and a further $240,000 for six filling machines to be bought by milk treatment stations.

The submission said that much, if not all, of this imported cost could be wiped out when flavoured milk displaced fruit juice and soft drink in the market place.

Raw material costs for comparative 500 ml containers were 1.78 cents per cardboard carton, 2.75 cents for a plastic bottle and cap, and 8 cents for a metal can.

So every time the consumer chose flavoured milk in a carton in preference to, say, a can of soft drink, a saving of 4.22 cents in foreign exchange was made.

A smaller saving was made if the flavoured milk displaced the plastic bottled fruit juice.

An overseas example showed that flavoured milk was likely to displace these non-alcoholic beverages.

Once again Hygrade was placing itself in direct competition with other AHI branches that make plastic containers and metal cans.

But Hygrade's costings were based on the assumption that cardboard raw materials could be imported.

New Zealand Forest Products is make carton cardboard at present for export to Australia. And AHI is joint owner with NZFP in Paper Coaters (NZ) Ltd; a plastic coating company.

But it is understood that NZFP intends charging UEB and AHI nearly double the world price for the carton board if either company gets the green light from Government on their carton schemes.

Hygrade's submission said that the paperboard packaging industry is severely disadvantaged in relation to other beverage packaging manufacturers who can import their raw materials while NZFP is protected from competing imports.

"This position must be difficult to justify in light of the nations forest resources and paper making ability", the submission said.

Hygrade asked Government to allow the importation of raw materials and machinery for the production of beverage cartons.

But in a seeming contradiction, Hygrade's submission said the development of a local market for plastic coated carton board would assist NZFP and Paper Coaters (NZ) Ltd in seeking new export markets.

Much of the opposition to milk cartons stems from the belief that the carton will displace the bottle and at the same time destroy the present vending system as consumers turn to the supermarkets for milk supplies.

Hygrade's submission disputes this belief.

Returnable milk bottles cost 0.4 cents a litre. And if the carton costs 5 cents a litre, this extra cost is passed on to the consumer.

Consumer price resistance will limit the demand for white milk in cartons, the submission said.

Mouncey said Hygrade had recent market research to back this claim up.

Another assumption held by the anti-carton lobby is that the advent of milk cartons eventually reduces milk consumption.

Mouncey said his research showed no such negative correlation between consumption and containers.

Hygrade looked at milk consumption in nine countries. Of these Finland had the highest per capita milk consumption. And Finland used disposable containers, not bottles.

New Zealand, with 98.3 per cent of its milk in returnable bottles ranked only fifth out of nine in the consumption stakes.

Like UEB, Hygrade placed heavy emphasis on consumer and industry choice.

"The consumer already enjoys many choices within the non-alcoholic beverage market, and we suggest it is unfair that a new product based on one of New Zealand's most prolific primary products — milk — should be disadvantaged through not enjoying the same freedom of choice in packaging materials," the submission said.

NEXT WEEK milk vendors detail why cartons will bring higher prices and falling consumption.

"Brain like a computer—keeps making fantastic mistakes."

Insurance institute tries to meet challenge

by John Sloan

THE insurance industry recognises that the 1980s present a tremendous challenge to their traditional role in the business and personal sector. Already insurers are deeply involved with computers, word processing units, and other advanced technology but the industry still relies on people who must be educated not only in the basics of insurance but how to apply them in a rapidly changing world.

The Insurance Institute of New Zealand has recently given insurance education a boost by the appointment of John Smith as education director. Smith, recently retired as chief accountant of the AMP Society, is actively promoting "public confidence in people engaged in insurance by encouraging them to obtain personal proficiency and to observe the highest ethical standards in the conduct of insurance business".

The insurance industry recognises that employees need skills beyond the narrow technicalities and theories of insurance.

Many problems have arisen through insurance personnel knowing all about insurance but lacking in supervisory and management ability.

Smith said: "The institute also acts as a catalyst in continuing education through seminars and courses to develop supervision and management skills and so to educate all within the insurance industry who face organisation and even changing jobs.

"The 1980s will require more than a formal technical insurance training—a wider view of the place of insurance in the whole environment will be essential. To this end a university post graduate diploma is being evaluated—this would seek to widen the horizons of the insurance leaders in the 1980s.

"The 1980s require and the institute aims to promote: technically qualified insurance personnel; post graduate trained insurance leaders; professionalism in solving a client's insurance problems; and a strong traditional support by the insurance sector for a soundly developing society in the challenging years," he said.

The insurance institute's vision is paralleled by the major insurance companies many of whom conduct their own internal training courses or sponsor employees to attend external courses. Companies such as the AMP, National Mutual, New Zealand Insurance, and The State Insurance Office conduct regular training seminars for all levels of employees.

Peter Street, the personnel manager of the National Mutual, said that the company had been conducting internal "packaged" management and supervisory courses which concentrated on the management of work and people.

What is planned for the 1980s was predicted as long ago as 1971 by John Thornton, then a training officer with the State Insurance Office, who remarked: "There is a need to go further. Perhaps there is a case for considering the establishment of a permanent insurance training centre run by the insurance institute and financed by the industry.

"The work of the centre could cover not only technical insurance subjects but also: supervision; management and administration training; sales and marketing; insurance staff could be properly trained as trainees..."

"Whatever methods we employ in the end, one thing is clear: as an industry we face an increasing need for personnel skilled both technically and administratively," Thornton said.

In the same year (1971) Sir Frank Holmes wrote: "If challenges are to be met effectively, your companies will find that they will need more specialists for example computer men, information scientists, accountants-cum-financial advisers, experts in personnel management. They will have to broaden the management pyramid and develop a more professional management."

Technological change: workers seek protection

AS THE insurance industry accelerates the introduction of new technology employees are voicing concern at how they will be affected.

Their concern is being expressed via the New Zealand Insurance Industrial Union of Workers who recently said: "Our Union is not opposed to the introduction of new technology.

"Our concern is that full consideration must be given to the human side of the changes. Unless workers and their unions are fully involved in the dynamic changes of the 1980s, technological change will be introduced at the expense of working people, both in terms of the availity of jobs and in the quality of the work available.

"Undoubtedly there will be major benefits from new technology. These benefits, which will accrue to business firms, will be at the expense of the individual worker, unless the fundamental questions of redistributing income and wealth within our society are fairly resolved.

"A close study of overseas development of new technology and of the current trends in New Zealand has resulted in a comprehensive award claim being made for the new insurance workers' award.

"The main features of the award claim are:

●No dismissals or redundancies;

●Consultation with the union over changes affecting workers' jobs;

●Protection of job gradings;

●Adequate re-training;

●Staff sharing of productivity gains;

●Adequate health precautions for the use of visual display units."

Insurance employees are also concerned at the price cutting war in their industry. One member of the Insurance Industrial Union, B R Shakes, said: "The time is fast approaching when our union must start to take an active interest in one particular aspect of the management of our industry.

"This matter, which greatly concerns me, is that of the widespread premium cutting which is going on and indeed has been for years," he said.

As an industry leader pointed out recently, one inevitable result of this practice is a reduction in the size of the pool available to pay claims.

He might also have added "a reduction in the ability of companies to pay decent salaries".

"This stealing of business between insurers has got to stop and if management hasn't the intestinal fortitude to say 'no' to demands for rate reductions from brokers and clients, then our members will have to take some form of action themselves," Shakes said.

"Management will no doubt scream that this is usurping their function but in the interests of our job protection, something will have to be done, and if management won't do it, we must," he said.

Taxi insurers expand portfolio into general

FOR MANY years taxis were considered the worst motor insurance risks. To prevent premiums from becoming prohibitive, taxi owners established their own insurance company in 1964 — the Gold Star Insurance Co Ltd. Over the years, the company has battled on to remain viable in the face of ever increasing repair and labour charges.

To avoid becoming over exposed by insuring taxis alone, Gold Star diversified into other areas of motor, fire and general insurance. Their consolidation of the taxi business (Gold Star hold 80 per cent of the New Zealand market) and expansion into insurance areas has paid off.

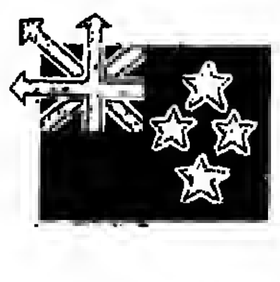
Gold Star's annual report for the year ended March 31, 1979 reveals a massive increase of 40 per cent in gross premium income of $1,061,480 which resulted in an underwriting surplus. Gold Star subsidiaries in the finance and panel beating fields also traded profitably contributing to an overall group net after tax profit of $46,642.

But problems remain, specially in the motor insurance field.

Company chairman H J Broadhurst said it was disappointing "that in spite of the massive lift in premium income, claims advanced at a greater rate.

Pacific Economic Community: a way out?

by Revel Lochore



OVERSEAS TRADE

WHILE politicians on both sides of the Tasman debate a two-country customs union, opportunities exist for a South Pacific economic community stretching from the equator and the frontier of China southward to Antarctica. In the second of a two part series, Revel A Lochore former New Zealand ambassador in Bonn and legation minister in Jakarta, develops the wider trade options available to this country.

THROUGHOUT the search for markets the Government's mistake was in concentrating on the wealthy super-powers, with the slogan "We must go where the money is". But the samples it offered opened no bulging wallets.

A winning ticket fell into our hands, squid. We leased it to Japan.

Such opportunities occur only once in a lifetime. So now New Zealand must turn back to the humbler markets in which our search should have begun: to the lesser powers around us, battling for development at our own level, the peoples of the South Pacific and of South-east Asia to whom from 1950 to 1972 successive National Governments gave effective technical assistance under the Colombo Plan so that by developing their industry and agriculture they might become competent trade partners.

Today most of those countries are indeed potential partners, and all of them face the same marketing problem as ourselves in dealing with the super-powers. Yet we discuss no problems and promote no trade with them.

The present Government is the negation and frustration of our 22 years of dedicated work under the Colombo Plan to build effective trading partnerships in our region of the world.

It has failed us by backing out of the Australia-sponsored Commonwealth Scheme for Regional Co-operation, by destructive interference with the trans-Tasman trade, by neglecting to work to a rational scheme or to develop a systematic plantation economy in the Pacific Islands, by evading entry into the South-east Asian butter market — in short, by shying off every proposal for closer relations with the powers of our South Pacific region.

Those relations will best take the form of an economic community, and a glance at the European prototype will show what that implies.

In 1958 six West European countries — Belgium, France, West Germany, Italy, Luxembourg and the Netherlands — came together in the formation of a customs union and a Common Market which together constitute an economic community.

They had been moved to do this through the flood of manufactured goods pouring in from the United States and Japan, inhibiting the rehabilitation of Europe's own industries and holding West Europe in economic dependence.

The new economic community wiped the internal tariff barriers of the six to form a free trade zone, set external tariffs just high enough to stimulate domestic production, and channelled external trade, both export and import, through one clearing-house, thereby focusing the whole bargaining power of the six on every international deal.

They drew up general guidelines for the development of particular industries within the community and for the importation of goods which it did not propose to produce itself.

In all other respects the individual member nations retained their sovereignty.

Today, with the addition of Britain, Ireland and Denmark, the six have become nine, and the European Economic Community, after 21 years of well-directed effort and rationalised development, is to be reckoned economically as a super-power, no less prosperous or self-sufficient than the United States or Japan.

It is also an object lesson to the Soviet block of East Europe in effective and profitable co-operation between private enterprise and an equally enterprising labour force.

Our community should follow that general pattern. It would be proposed by Australia and New Zealand, and constituted by accepting as members all consenting governments of countries of the South Pacific Region, from the equator and the frontier of China southward to Antarctica.

To the east, the South American countries bordering the Pacific might wish to belong.

With Japan, which is economically too dominant to fit into the membership pattern, the community would develop a special trading relationship.

With self-sufficient China, the community must develop from the outset the closest understanding in political, economic and social relations.

Thus ours would be one of the world's richest regions, with a wide range of climates, minerals and products; and remembering the example of the EEC, if all peoples throw their hearts into the project we can realistically expect to attain the prosperity of a super-power by the turn of the century.

Has the foundation of a South Pacific Economic Community been proposed previously? Yes.

In the final session of the EEC conference on Britain's entry in 1972, the president said that New Zealand could not be accommodated permanently. His advice was that New Zealand join with neighbouring countries to form its own South Pacific Economic Community.

Last October, Walter Scheel, President of the German Federal Republic, repeated that advice on behalf of the EEC in his farewell speech.

Again in November, David Rockefeller, President of the Chase Manhattan Bank, making a private visit but presumably with some backing of his Government, appears to have discussed with the Prime Minister and others the formation of a Pacific Free Trade Zone.

In April, American economist Harry Shultz was brought to New Zealand and advised: make more use of your skills, reverse your protectionist policies, drop import licences and look to the Pacific area for markets.

The Government has made no statement on any of these proposals and appears to have rejected them all without discussion or publicity.

In its 3½ year rule the Government has brought on us the discouragement of private enterprise and of personal initiative at all levels, over-regulation, a failed search for overseas markets, internal stagnation apart from the drift towards a Soviet-type "planned economy".

The constructive way out is to accept and develop the above proposals of our overseas advisers.

That would be a continuation of historic National Party policies of establishing trade partnerships with neighbouring countries.

So we hope that the leadership of the National Party will make this project its own, and will initiate a nation-wide discussion among parties and estates on the formation of the South Pacific Economic Community which will free initiative and bring prosperity to every member of this dispirited nation.

Nimble-minded promoters build up vitamin E

by Belinda Gillespie

GOOD HEALTHKEEPING

VITAMIN E has long been a money-spinner for drug companies and health-food shops. You name it, vitamin E can cure it — in the words of one advertisement: "vitamin E is very versatile and needed by every cell of the body."

Overlooking the fact that, by definition, all vitamins are essential for life and therefore "needed by every cell of the body", E's versatility springs from the nimble minds of its promoters rather than scientific evidence.

A long-held reputation as an improver of sexual performance is still fostered by some material advertising vitamin E. But the promoters, who know they are on shaky ground generally build on the association already present in the audience's minds — they display an amorous couple or a husband who is "too tired", without spelling out the message directly.

In fact, although essential to the fertility of the male rat, and the normal pregnancy of the female, no connection with human sexuality has ever been found.

A few weeks back, vitamin E hit Truth's front page as a new "Cot Death Cure Hope".

A precedent was set by Time magazine more than 30 years ago, when it ran a cover story on the vitamin as a new hope to cure heart disease.

The heart disease theory never succeeded in gaining acceptance by established medicine, though its proponents were three Canadian doctors, whose views were widely publicised.

Followers of counter-culture health systems see this as part of the health establishment's plot to keep everyone sick and its own pockets well-lined, and continue to quaff wheatgerm oil and vitamin E pills for the good of their hearts and other organs.

In fact, world-wide medical interest was stimulated by the Time account.

By 1950 13 studies had been published in medical journals, all reporting discouraging results in treating heart disease with vitamin E.

Because of the lack of response in their initial experiments, most researchers didn't persist with their work. One extensive study, however, was carried out in an Illinois hospital over a six-year period for the National Research Council, which, in the United States, has the job of setting up recommended allowances for vitamins and other nutrients.

A group of patients lived on a diet low in vitamin E over the six-year period, and was tested extensively to see whether any physical or mental changes were the result.

There were no adverse effects. The people in the study remained well despite an 80 per cent reduction of vitamin E levels in their blood.

Don Money, an animal researcher at the Wallaceville centre in Wellington, has a theory that "sudden infant death syndrome", or cot-death, could be prevented by dietary supplements of vitamin E. His work is based on the successful treatment of pigs, which suffer similar fatalities.

Money has been advancing his theory for some time, and in the late 1960s, his work lead to a request to doctors from the Health Department that they record whether infants who died cot deaths were breast fed or artificially fed.

A crucial part of Money's theory is that breast-fed babies are less prone to cot death, as human milk has more vitamin E than cow's milk. But the association proved not to be so clear-cut, and according to Money's own research a considerable number of the New Zealand cot-death babies had after all been breast-fed.

In a new twist in his theory, according to the Truth report, Money argues that New Zealanders are short of selenium (a trace element lacking in New Zealand soil which is related to vitamin E metabolism), and that nursing mothers, as well as artificially fed babies, should be dosed accordingly.

A further point is that commercial baby formulae generally contain iron, an oxidant, whereas vitamin E is an anti-oxidant.

With one exception, the doctors questioned by Truth didn't back the Money theory, though there seems to be agreement that further work would be justified.

One problem is explaining why some breast-fed babies, even in countries where there is more selenium in the food than here, die cot-deaths. Another catch is that the history of vitamin E is littered with attempts to apply the results of animal experiments to humans.

Animals deprived of the vitamin show muscle wasting and abnormalities in the heart muscle, as well as reproductive failure in some species.

Liver damage and retarded growth are among other serious effects seen in some animals — yet humans deprived of the vitamin haven't shown these effects.

More important, people suffering from such disorders who have been treated with vitamin E, haven't shown any benefit. Yet another attempt to make the leap from applying the results of animal experiments to human beings seems bound to meet with some medical scepticism, especially when the vitamin E theory for cot-death is one among many.

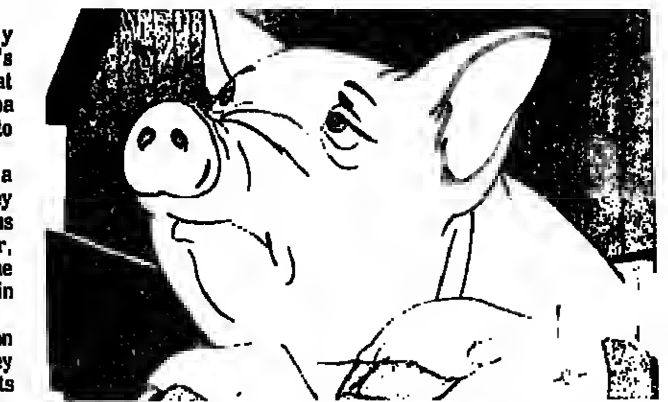
Furthermore, all the infant formulas commonly sold in chemists are now fortified with vitamin E, and as these are used increasingly in preference to unmodified cow's milk, one would expect a proportional decline in cot deaths among even artificially fed babies.

Doctors were equally unreceptive to Money's suggestion back in 1977 that New Zealand butter should be fortified with vitamin E to prevent heart disease.

This stemmed from a comparison made by Money and his colleagues of various types of margarine and butter, and the finding that margarine was 10 times higher in vitamin vitamin E.

Again basing his ideas on animal experiments, Money theorised that animal fats were being wrongly blamed as a cause of heart disease. It was a deficiency of vitamin E, not the direct harmful effects of the fats which were responsible, he claimed — so why not add vitamin E to butter?

He overlooked the fact that vitamin E has a good spread in many other foods, besides vegetable oils and margarine — milk, meat, fish, eggs, wholegrain cereals, green vegetables all contain it and are enjoyed by most New Zealanders, at a level which almost certainly ensures that they are not deficient — though as scientists haven't been able to identify a state of vitamin E deficiency, they have had great difficulty in establishing a daily requirement.



DIETARY SUPPLEMENTS . . . it works on pigs

Adding vitamin E to butter would turn it into a health food overnight.

While this would go some way to boost its declining sales, the National Heart Foundation would probably frown on anything encouraging already plump New Zealanders to consume more fat in any form — the trend these days being to the view that reducing the amount of food one eats, overall, rather than juggling various fats, is as good a way as any of reducing the dietary risk factors in heart disease.

One way and another, Don Money hasn't received much encouragement from doctors in his enthusiasm for vitamin E — which still doesn't mean that he might not, in the long run, be proved right.

But the image of this particular vitamin has been considerably tarnished by its promotion as a cosmetic (a skin cream, for example, that is supposed to prevent wrinkles), a sexual elixir, a cure for heart disease, baldness, skin problems, arthritis, cancer and ulcers, to name a few.

So far as human beings go, at the present state of medical knowledge, the presence of vitamin E in many widely eaten foods makes a deficiency unlikely. And claims that the ordinary diet should be supplemented with the vitamin have no sound evidence to back them up.

Premature babies, or adults with an impaired ability to absorb fat, are the only two groups who will benefit from vitamin E medication, and both should anyway be under medical supervision.

Derek Quigley: principal private enterprise standard bearer arouses fears and hopes

by Colin James

WHEN Derek Quigley became a Cabinet minister at the end of last year he took out some books from the library on how to read faster.

That one act illustrates a number of things about the man who has become the darling of the private enterprise ideologs in the National Party, this year's fastest-rising political star.

- He is, in his own words, "a very slow reader", which is a handicap for any top executive, particularly if he is a Cabinet minister.
- He is not a high flyer, to whom everything comes easily.
- He recognises his limitations — a rare quality in any politician. And, even rarer, he is prepared to do something about them.
- Finally, it shows the methodical, thorough self-improver, the long-distance runner.

There is an additional, ironic, twist to the story. He did not get through the faster-reading books.

The slowly-read avalanche of paper that passes over a minister's desk engulfed them. He now says he will "certainly" organise a rapid reading course at the end of this year.

It is perhaps indicative of the private person that is Derek Quigley that this "tremendous disadvantage", as he puts it, is not apparent to many around him.

They see his obvious intelligence, his mastery of complex detail, his clarity of thought, his steadfastness of purpose. Those who know him greatly respect him.

Though to many he remains a shadowy enigma, an aloof eminence, to an increasing number he has become the principal private enterprise standard-bearer and a potential prime minister, arousing fears and hopes.

Even though he was

PROFILE

overseas at the time, his "presence" at the National Party conference last July was almost palpable.

Had he been there, he would almost certainly have been lionised. He would have hated that. He is the shyest politician I have ever interviewed. And one of the most pleasant at close quarters, with an engaging frankness and a dry sense of humour.

His shyness may partly be traceable to a childhood spent, initially "terribly homesick", in boarding schools on doctor's orders after an early bout of rheumatic fever, first at Medbury prep school and later at Christ's College, the Canterbury squattocracy's wistful re-creation of Eton, the training ground of leaders.

The small farmer's son from Waipara in North Canterbury was always conscious of his peers' social superiority, but leadership did follow. He was picked for an officer training unit from the first intake of peacetime military conscripts after the 1949 legislation.

"Part of what I thoroughly enjoyed in the army was mixing with blokes of my own age, many of whom had gone through local school and hadn't had the opportunity to go to boarding school which I had," he says.

"It was a chance for people like me to learn how to get on with people of our own age. If you had peculiar ideas and thought you could go your own way, you were very soon brought back into the central stream of things by your fellow trainees."

Words with a ring of truth. He took his officer's role a bit too seriously for the easy-going young farmers who formed his post-Burnham unit at Waipara.

"He was," said one of them, "a very efficient officer — probably too efficient for some of the locals."

Then, revealingly, the friend added: "He was officer material — but he had to work at it."

Another illustration: Young farmers did a lot of debating in those days and so did Quigley — usually as leader of the team, which usually won.

Yet, a friend says, he "was not one of the first half-dozen you would pick for a debate. But his value was that if you told him to do it, you could be sure he would prepare it well and do a good job."

The young Quigley was also a keen sportsman. He still plays the odd round of golf. He was a North Canterbury cricket rep, with both bat and ball.

In those days, it was (and on some grounds still is) the custom to sink a keg after the game.

Today colleagues say he drinks little — is abstemious by parliamentary standards. But in those days fellow-players recall Quigley would take his part in the after-match ritual.

And he would join his mates at the round of country "dos" — "One of the green-felt-hat-turned-down and tweed sports coat brigade," as a contemporary put it.

But all with moderation. No one can recall ever seeing him the worse for wear for alcohol. He was never one to "pull the house down". He was the one who remembered the needs of the next day and would head for bed.

Conscientious. The word keeps cropping up in conversations about him. He was apparently not a great rugby player, for instance — but he was valued as a second five-eighth who could always be relied on to make the tackle.

And as a pace bowler in cricket, an opponent says, he was "more a mugger than a quickie — the same as he is now, not giving anything away."

Thus the shy — "particularly with girls," a friend says — country lad, an easy mixer with those he knew but uneasy with those he didn't — "even less outgoing and more modest in those days than now," says a longstanding acquaintance — proceeded unspectacularly through his twenties — "It would take a lot to pick him out of the bunch at that stage."

But someone did pick him out. In the mid-1950s he won a Young Farmer exchange scholarship to Britain and the United States.

Ambitions stirred. He stood for the National Party in the hopeless Sydenham seat in 1960.

When his own seat of Hurunui came up for a by-election in 1961, he sought the nomination, with typical thoroughness borrowing a tape recorder to practice his speech-making.

He did not get that nomination, nor did he get the nomination for the National-held Waitaki seat the following year, though later in 1962 he stood for National in neighbouring Timaru, where he lost. In 1963 he was back in Sydenham.

His press pictures of the time show him for what he was: a raw country cousin. If there was promise, it did not shine out of his face.

Quigley now recognises the deficiencies of the fledgling politico of that time.

"In retrospect, I'm quite delighted that I didn't get in," he says, "because I didn't have a long background of experience in farming (because of my age) and I didn't have any additional qualifications that perhaps would have given me the opportunity to make some solid contribution."

Neither did he have a coherent worldview.

It has taken him time and much thought and experience to reach his present state of mind.

He is a liberal. In economic matters, that means minimal state interference, which some interpret as right wing. In moral matters, it means the same, a concern for civil liberties. He was one of the most liberal of the MPs on abortion.

But not on homosexuality, where he regards himself as a conservative. "I remember talking to someone on talkback who questioned me about five minutes on it and the only answer I had was that everyone should be allowed at least one bias."

It was not biases that concerned him in the early 1960s when he was trying to get into politics. It was his lack of qualifications other than farming.

That had been bothering him ever since counterparts in the United States had asked him what university course he had done as a backup to his farming experience.

Then a friend of his got an economics degree at the London School of Economics and he got fired up. At 30, he set out to study, travelling back and forwards 60 kilometres to Christchurch. In the late 1960s he emerged with a law degree and firmly set on a new career.

That took dedication — not just from him but from his wife Judith who looked after the family and did the lambing on the farm.

People who know the Quigleys were eloquent about Judith Quigley's ability to combine support for her husband with a life of her own, taking a full part in the surrounding community.

Why law? "Because the friend I was studying with said, 'Let's do a law degree'."

And why leave farming? A friend surmised that it might not have been challenging enough, that he had improved the farm as much as he could and it was not enough to occupy him fulltime.

Quigley says that when he started on the degree he presumed he would stay in farming and that the degree would be "just another qualification".

But he left because "farming was an occupation you weren't able to control.

"You could make a very good job of fallowing a paddock and sowing it down at the right time of the year and you'd get a thunderstorm right after you had sown it and it would be all scoured out.

"Or you'd get a drought when a crop that looked to be magnificent had got to the crucial stage where it needed another shower of rain."

The careful preparer, the man who needs to make sure the dots are on all the i's, the holes are all sealed up.

It betrays a nervous unselfconfidence. Listen to the man who years before "had to work and work and work" to get through school certificate to justify the money his parents were spending sending him to Christ's:

"Everyone else seemed to be able to swot for the (university) exams during the fortnight or three weeks before the exam finally arrived.

"I was always petrified that I would be ill during that period and that I wouldn't be able to put in the time to pass the exams so I used to start preparing for my final exams after the mid-session break, about June or July.

"So I would be preparing my exam questions in many instances before we got to the topic in lectures, so that I would be ready."

Certainly not the intellectual high flyer — not the quick brain of Barry Brill or the articulate assurance of Jim McLay, the other two lawyers who came into the House with him in 1975.

Rather the slow absorber of ideas. A fellow-lawyer recalls him at a seminar shortly after he left law school.

"Some of the comments he made seemed like fixed ideas rather than creative ones. He didn't stand out at all."

In fact, though he at first aspired to a court role, he settled down as a conveyancing solicitor — the meticulous (according to fellow-lawyers) nuts and bolts man.

His specialties: estate planning (later in Parliament and the Cabinet he was to be the most determined arguer for the abolition of death duties, with success); and noxious weeds, on which subject he won a number of Supreme Court cases.

Both reflected a growing farmer clientele, as former friends sought out a man they knew they could rely on.

His style: quiet, invariably courteous, irresistibly persistent. One man he helped described to me almost with awe a patient four-hour negotiating session in which Quigley started off from a position of weakness and ended up getting the deal.

Later he brought the same style to his election campaigning. An opponent speaks highly of his gentlemanliness.

"I felt I could respect him as a friend rather than a politician," the opponent said. "There was no dirt, no digs, no innuendoes."

And those in his electorate he has worked with as an MP say the same of him — that he gets results, but quietly, without fanfare or fuss.

That is not the recipe most politicians use. But as the 1960s turned into the 1970s, others who knew him started lining him up for the chairmanship of the National Party's Canterbury-Westland division.

One listed the qualities he sought in such a person: the necessary administrative skills, the ability to get on well with people, the ability to chair meetings, clarity of expression, innovation and

DEREK QUIGLEY ... shadowy enigma.

leadership.

In his view Quigley had the lot. He duly became vice-chairman of the division.

That stirred political ambitions again. In 1972, when Lorrie Pickering who had beaten him for the Hurunui nomination in 1961, stood down in renamed Rangiora, Quigley seriously considered putting in for the nomination, but pulled back in the face of the reluctance of his wife and Mark, his elder son (of four children).

This family reluctance was temporary. In 1975, friends say, the whole family helped him campaign, none more than his gregarious wife. Judith was the sort who could cheerfully have the family car painted with slogans, while Derek cringed at the thought.

In fact, by 1975, Quigley's political ambitions had cooled, primarily because he had got himself established in the law.

What brought him out was a long-time admirer from Waipara, a man Quigley had helped get into a farm. The admirer persisted until Quigley agreed.

He was "abominable" as a campaigner for the nomination, according to people in the party at the time: "a cold fish, shy, with limited gestures."

In fact, Quigley came close to pulling out at the last pre-selection meeting. A friend of one of his opponents tape-recorded the speeches.

"That made me wild," Quigley says. "I thought to myself, 'You don't want to be a candidate and this is the time to get up and walk out.' Then I said to myself, 'Why the hell should I walk out.' So I didn't walk out and some of my emotion came through in my speech."

That speech won him the nomination and through it a seat in Parliament. But not an unreserved commitment to politics.

Several times between 1975 and 1978 he was tempted to quit, because of the triviality of parliamentary life. Once he stayed away from a select committee meeting to avoid voting for a party line he disapproved of.

He made little impact in the House where he was an infrequent and careful debater — "My first speeches were even boring to me," he says.

But it was a different story in the party's closed-door caucus meeting. There he earned respect as a thoughtful contributor and a courageous one, not afraid to take on Prime Minister Robert Muldoon, then at the height of his power after carrying the party to victory in 1975.

It was Quigley who in the caucus advised Muldoon he was legally wrong to try to end Labour's superannuation scheme by press statement. One version of that event has it that when Muldoon asked him if he had finished — in effect, an invitation to stop — Quigley said he had not and continued.

More remarkable, in the caucus meeting which followed the Supreme Court judgment against Muldoon on the superannuation issue Quigley is said to have driven the point home.

A friend says: "At back he has a ruthless determination to succeed at what he believes in. If every member of the Cabinet was like Quigley this party would be in power for ever."

By 1979, even though he was still little known outside his electorate and a small group of cognoscenti in the upper reaches of the party, he was an irresistible choice for a Cabinet post.

And in the short time he has been there he has won a reputation as a major influence in the push towards greater emphasis on private enterprise and reliance on market forces in economic management.

People have begun to see in him an alternative, or at least eventual, leader — a cool head, considerable practical intelligence, the right political beliefs, absolute (though not blind) loyalty which in turn encourages loyalty, a human decency.

One colleague not usually given to hyperbole listed his qualities: "extremely efficient and effective, extremely modest but knows his own qualities and skills, extremely educable on new subjects, possessing very good judgment, a very strong sense of injustice".

But not star quality. He is not the sort that can produce rabbits out of hats with incisive political intuition. Fast footwork is not his style.

If he is creative — and some claim his approach to housing has been creative — it is in measuring problems against his hard-earned system of political beliefs and applying the most logical result.

Nor is he a popular glad-hander. His speechmaking, though it has improved, is dull. One doesn't see him round the pubs in his electorate. He is uneasy in a room full of new people, though apparently he has improved very quickly.

If he does become Prime Minister, he is more likely to be the efficient, aloof Peter Fraser-like public figure than any other recent New Zealand leader.

But being leader is not a consuming concern of his. Everyone I spoke to about him said without hesitation that Quigley is not ambitious for himself, though he is for his ideas.

Some people have seen him as a potential coupster and a story goes round in Rangiora that he once told some National supporters that he believed Muldoon would have to go.

He denies that. "From a position of dislike for the man, over a period of time I have developed and still possess an extremely high regard for his quite phenomenal ability, for his political sense. So I certainly wouldn't have said that."

He also rejects any thought at the moment of being Prime Minister.

"A job like that is a burden for anyone and I just wouldn't be able to handle it," he says. "Maybe in several years time after I've learnt an awful lot more than I have now, perhaps I may feel capable of handling the job."

Given his past record of self-improvement, there can be little doubt he has the capacity to learn — and learn thoroughly — that "awful lot".

He is 47. That is relatively old in modern politics for a junior minister. But there is a depth to Quigley and a persistent upward mobility.

There is more to be heard from him yet.

TV2 tries harder

IF you happen to be the ugly duckling and people repeatedly tell you so, it's more than likely that you're going to start preening your plumage and sticking your neck out or doing whatever it is that ugly ducklings have to do to turn themselves into elegant and admired swans.

At least, that's what appears to have happened at formerly criticised and unloved South Pacific Television.

It had suffered not only from the caustic comments of TV programme critics but also from the misfortune of losing out in the numbers game and returning advertising revenues far below the figures recorded by star performer TV1.

But now TV2 is gliding serenely on the waters of swan lake capturing envious glances from all sides.

But you've only 38 per cent of the total audience cry the misbelievers.

Yes, but we contribute 40 per cent of the total advertising revenue says the new star, striking out even faster.

The story of the renaissance of TV2's fortunes follows the simple plot lines of what happens in almost any competitive situation. Number two tries harder.

South Pacific Television suffered at the outset from exceedingly limited coverage which was gradually expanded until now only some sparsely populated coastal strips are denied coverage; from the consequently lower head count of viewers at a time when advertisers were looking for mass audiences; and from a towering opponent which literally smothered the nation and had been rationing advertising supply so long it had become a habit.

TV2's successful sales strategy came together over a fairly lengthy period. Some of the elements were there from the beginning and others were slotted into place as the technical jigsaw of coverage fitted together and the pattern started to emerge.

Without a ready made market, TV2 set out to create one and aimed at the regional and retail prospect which had been virtually excluded from TV1 by the demands of the national advertisers.

Local advertisers were delighted to breathe the rarefied air at advertising's television altitudes.

Furthermore, they could pick and choose their programme placements, just like the big national advertisers.

It wasn't an easy job for the channel, balancing commercials of various lengths from Auckland to Dunedin so that they would combine with national advertising to fill precisely the time allotted for each commercial break nationwide, but it was done.

Now, by decree, TV1 has surrendered what regional advertising it had and TV2 is officially as well as factually the regional advertising channel.

One third of all advertising time on TV2 is allocated for regional selling and that adds up to 132 minutes a week — a formidable and never ending task for the regional sales forces.

Another early piece of sales policy was concentration on selling fixed programme times in contrast to selling rotate spots. The pitch to advertisers was that they could locate their target audiences by selecting the appropriate programmes. Rotate spots would give a scattering of audience but fixed spots would provide an identified grouping. By stressing cost efficiency, the sales argument moved away from mere weight of numbers.

Now that the broadcast area is extended to Northland, the channel can offer virtual national coverage, or six regions separately or in any combination.

They are known as Auckland, comprising metropolitan Auckland, Whangarei and North Auckland; Hamilton-Waikato, Bay of Plenty, King Country; Palmerston North-Taranaki, Manawatu, Wairarapa, Hawke's Bay, Poverty Bay; Wellington - metropolitan, Wellington, Marlborough, Nelson; Christchurch-metropolitan, Christchurch, mid and north Canterbury; Dunedin-South Canterbury, Otago, Southland.

Because there are some areas still not receiving a signal, such as the West Coast of the South Island, TV2 cannot claim a truly national coverage. But what it can and does claim is complete coverage of every urban area of New Zealand.

In selling parlance this is known as minimising your weaknesses by maximising your strengths.

Each of six markets calls for different selling applications.

In Auckland, for instance, 98 per cent of the advertising emanates from advertising agencies.

In the boomerang shaped Palmerston North area, 68 per cent of the advertising has to be locally stimulated.

But the mere fact that there are six different inputs generates a degree of competition between areas and Hamilton, for example, is happy to point to 88 per cent of time sold for the first quarter of this year as compared with Auckland's 84 per cent and Christchurch's 78 per cent.

Back at headquarters they are regarding the national advertising sales figures with some satisfaction also — no less than 91 per cent of time was sold in the first quarter. And the trend is right.

ADMARK

In the April, May, June figures there was an improvement of 47 per cent over the corresponding period of the previous year.

In the second quarter, July, August, September, the figures point to a 58 per cent gain over last year.

That is why, despite the fact that the television advertising take overall is only slightly bigger, TV2's share of the total is now running at 49 per cent. As TV2's total has been reported as $12.00 million for the six months, this would make TV1's figure $12.55 million and the total over the $24 million mark.

SPTV2's success is the result of developing and implementing a selling strategy which, in effect, advocates a sharpshooter's aim instead of the use of a scattergun.

Unable to sell weight of viewers, it has promoted cost-effectiveness based on delivering a target audience through fixed programme placement with sufficient density. But is has been considerably aided by a not-so-secret weapon.

The extremely complex balancing operation called for in fitting multiple, regional and national ads into the straitjacket of a fixed commercial break, plus the detailed booking, recording, scheduling and billing operations called for explicit control.

Senior staff had seen and recognised overseas a system which could be modified to meet the need and after prolonged application, their wishes were met.

In the "Magnetechtronics Broadcasting Traffic System", equipped with Qantel hardware, TV2 has what is regarded as the most sophisticated application of its kind anywhere in the world.

As a spin-off from its multiplicity of uses, agency people can come to advertising headquarters and have spelled out on the monitoring screens what time availabilities exist for their requirements in a shop front operation.

It's a quick, easy and efficient decision-taking operation. And this advanced computerised service is also a competitive answer to a competitive situation, giving an edge which is difficult to evaluate.

We have gone into the TV2 success story in some depth for a very particular reason. At some time in the near future, the selling of television time, with the exception of regional sales which will be handled separately, will be centralised in one Television New Zealand sales operation.

One sales rep can take care of your TV1 and TV2 requirements equally. No, there are no specials today. Well, we can't really say that one channel offers superior advertising opportunities or benefits. We are not really competing for business.

Top-line marketers have always recognised that one way of getting a bigger market share is to have two brands instead of one in the marketplace.

Television is eliminating one brand which means one fewer competitor in the total media field. The print media will be rightly pleased. Radio salesmen will be stimulated to chase advertising dollars even harder.

The day that competition goes out of selling of television advertising time may well prove to be the day when the BCNZ finds it has another financial bridge to cross.

INL award appeals

CONDITIONS governing the INL Newspaper Advertisement of the Year Awards have now been announced and will meet with the approval of agencies in almost all respects.

Prize for the top award is an invitation for the creative director of the successful agency, or a member of the creative staff, to the 1980 Chicago Art Directors Workshop with INL footing the bill for travel, accommodation and workshop costs.

Similarly, winners of category awards will have an invitation to the Caxton Awards Seminar in Australia and expenses will be met by INL.

Winning entries will receive a commemorative trophy and second placed entries may be named in each category.

There are eight categories in all and provision for entering campaigns as well as single ads. There is no limit to the number of entries an agency may make.

In a contest of this nature, the composition of the judging panel is generally a factor in ensuring acceptance by possible entrants. Agencies were generally pleased to see that the judges were to be selected from agency personnel to provide a jury of peers.

Admark understands that the judging personnel have been selected but no announcement has yet been made.

The criteria for judging will cause most comment. "The judges will judge a newspaper advertisement using as their criteria, not only the look, layout and copy of the advertisement but the expected effectiveness of the advertisement to the audience to which it is directed," say the rules.

At the same time the organisers freely acknowledge that "it is almost impossible to judge an entry on performance in the market, much as this should be the major reason for a given award."

It is difficult to see how advertising effectiveness could be judged in isolation. There are so many factors in the marketing mix which can make a contribution to sales success that the task of dissecting these might well prove impossible.

Most ad men approached by Admark commented on this aspect of adjudication. "I'm sure the judging panel will do a splendid job," said Ilott's Pat Smith, "but each will of course judge from the basis of his or her creative standards. But the competition is a sound idea and we will support it."

Marlyn Turner, O & M's managing director, said he was delighted at the instigation of the award. "It gives creative people something to work for other than the applause of their colleagues and clients."

Terry King of Mackay King considered the competition had been thoroughly developed.

"We like the concept," he said, "and the prizes are most appropriate." He also regretted the absence of some criterion for effectiveness, "as advertising must be accountable" but thought the contest well worthwhile and deserving of support.

The game of the name

"THE beginning of wisdom," says a Chinese proverb, "is to call things by their right names".

J Walter Thompson agency has been trading for the last three years or so under the name of Thompson Advertising, though the JWT logo embellished the shiny brass plate at the entrance of the Wellington premises.

So it was intriguing, at least, to see the recent registration of the J Walter Thompson Company Ltd with the principal shareholder recorded as J Walter Thompson Co (US). But there is a simple explanation.

When JWT and Peter Morsland decided to set up in this country, an existing registration of an accredited agency, Walter J Thompson, in practical terms pre-empted the use of the traditional name.

By agreement with Wally Thompson, who has now retired from the advertising scene, JWT has registered a new company to protect its rights to its own name.

When all the legal formalities are neatly tucked away, J Walter Thompson Company will again trade as — J Walter Thompson Company

American economy heads into mild recession

Economics Correspondent

THE United States economy is officially in recession — President Carter's administration has said so.

But two prominant economists from oppasing political parties in the United States say that the economy will experience only a mild recession in the coming months. And the University of Michigan's Econometric Forecasting service reports that the length and severity of the 1978 recession "will qualify it as among the mildest of any recession of recent record".

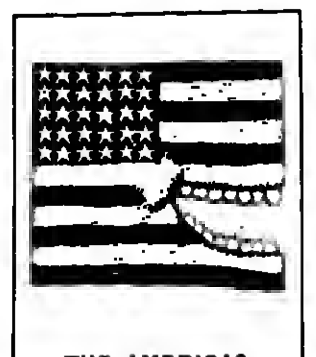
Alan Greenspan, former Chairman of the Council of Economic Advisers under President Ford and Otto Eckatein, a former adviser to President Johnson and President of the highly respected Dato Resourcea Econametric Forecasting Service agreed that there is nathing that President Carter'a administration can do aver the next nine months to significantly improve the economic outlook for the United States.

Even so, the recession is expected to be less severe than that of 1873-74.

Greenspan predicts that the recession will begin in earnest during the last quarter of 1979 and continue throughout the first half of 1980. Although the Carter administration and many economists hava suggested that the Unitad States is already in the midst of a recession baginning as early as March, Greenspan argues that more up-to-data statistics will show a later start.

The United States Government has a formal definition for a recession. According to the United States Commerce Department, it la two consecutiva quarters of negative growth.

And there is also an official view of the causes of the recession. Faod, fuel, end houaing prices have risen spectacularly over the last year, causing a slowing in growth and a rise in inflation



THE AMERICAS

at the same time.

Inflation in the United States is running at an annual rate of almost 14 per cent. Arthur Orkun of the Brookinga Institution says that rapid inflation has become a chronic problem in the United States. Historically in America, inflation has diminished after a few years. But between 1968 and 1979, each year's inflation rate has been higher than the year before.

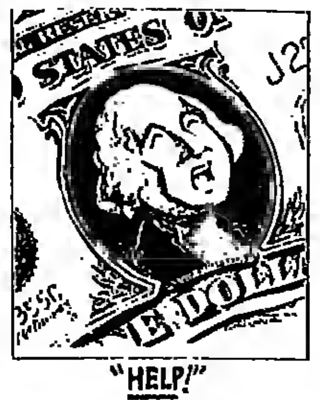
Economic growth is expected to dive when inventories begin to grow and housing prices drop as Americans react to the current economic conditions.

Greenspan thinks the recession could deepen if there is heavier than expected inventory accumulation and a fall in housing starts. A threatened strike by car industry workera could prolong the recession.

But Eckstein says it was highly unlikely that housing sterts would fall significantly in the coming year and ha seea noreason to think the atrike by General Motors Corporation car industry workers will be prolonged.

Even a mild United States recession is bed news for New Zealand. Inflation in the United States adds to the downward pressure already being exerted by rising oil prices on our terms of trade. And a slowing in the United States growth rate will result in a slowing in demand for New Zealand exports.

Though American



"HELP!"

economists mainly agree that the United States recession will be mild and will probably not be prolonged beyond mid-1980s.

It will prabably be some time before the American cansumer feels like splurging on expensive meat products ar new import goods even if they are from same place as exotic as New Zealand.

One factar cantributing to the United States current economic problems is the fall in productivity.

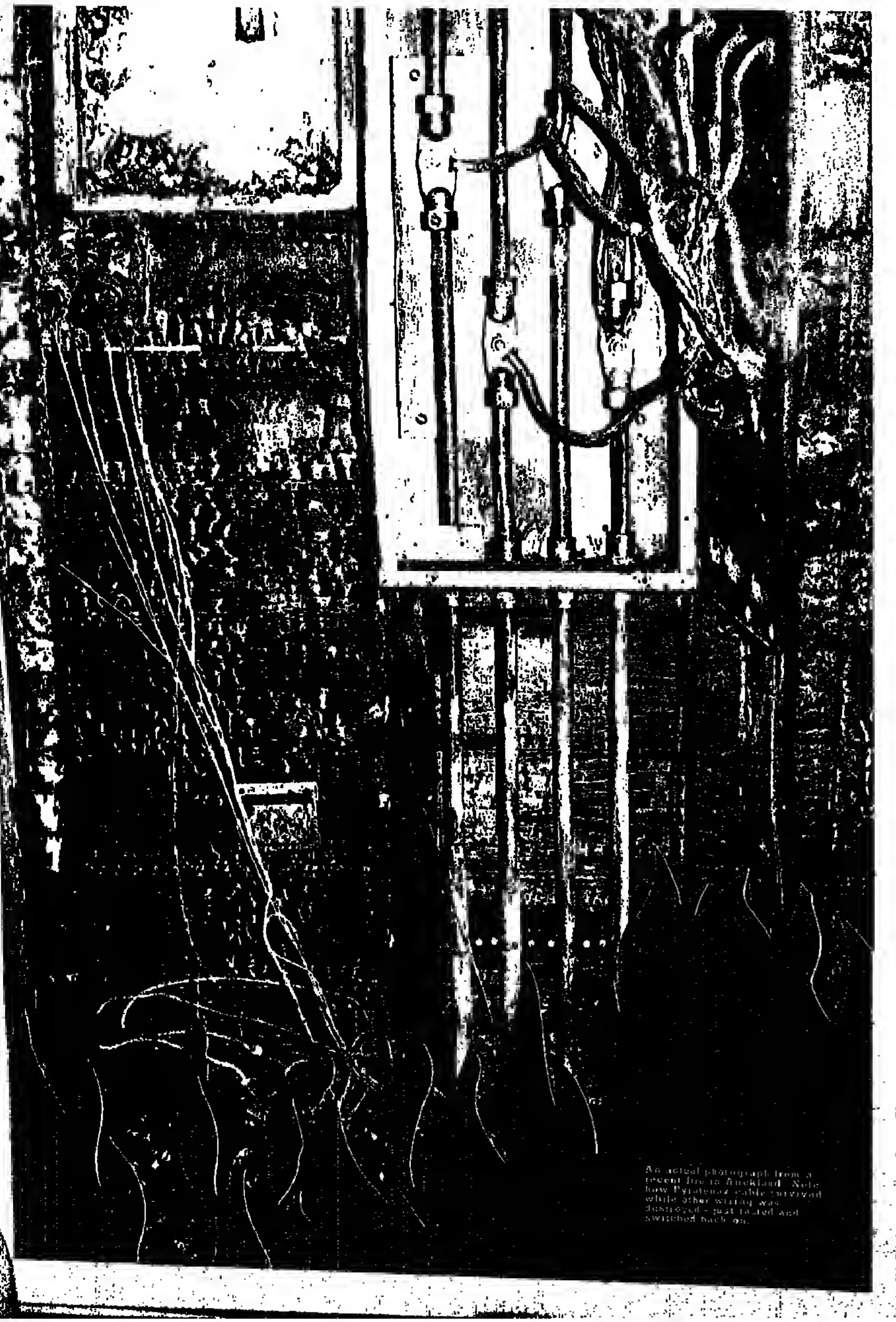
Normally their economy has been able to weather crises by producing floods of new, less expensive goods. But not recently.

Now aome experts are saying that the United States has the lowest rate of productivity growth of any major oon Communist country.

The United States Labor Department reported that productivity in the second quarter of 1979 suffered its sharpest drop in more than five years.

Apparently it will not be easy for the Carter administration to bring the economy out of its doldrums. Many expect that he will attempt to increase aggregate demand and stimulate business by cutting taxes.

This would be a popular policy and help in the President's bid for re-election. It might also put the economy on a growth path, but reducing taxes is unlikely to solve the now chronic inflation problem.



When fire struck...

the Pyrotenax Cables lived on

Continuing to work all those services so vital to the lives and livelihoods of the people in this building.

The proof is in the photograph; only the Pyrotenax Mineral Insulated cables survived, still operational.

Pyrotenax mineral insulated copper sheathed cables are your guarantee of continuous power for:

Emergency Lighting • Emergency Stand-by Equipment • Sprinkler System Pumps • Lift mains, Alarms, etc.

in even the fiercest inferno.

Pyrotenax also means protection for fire fighters: no poisonous PVC gases, no fumes through the ventilating systems.

Pyrotenax, designed to carry the load — even through fire.

Pyrotenax

The Fire Fighting Cable

If you haven't already received our technical brochure "Pyrotenax, the Mineral Insulated Cable" (dated 8/77), mail this coupon now.

To Giles & Elliott Ltd
P.O. Box 2948
WELLINGTON

Please send me brochure entitled "Pyrotenax, The Mineral Insulated Cable".

Name: ....

Address: ....

GAEL ... Distributed in New Zealand by GILES AND ELLIOTT LIMITED
P.O. Box 2948, Wellington
Branches at Auckland, Hamilton, Christchurch and Dunedin

Motorists stick pins in Arabs and oil firms

by Colin James

IF THERE have to be more restrictiona on petrol consumption New Zealanders would by and large prefer rationing.

This is suggested by the finding in a Heylan Research Centre survey, carried out on August 4.

The 1000 people interviawed ware given seven choices.

Some 81 per cent chose rationing — 38.3 per cent a set amount each week for each car and 22.7 per cent a variable amount each week each car, depending on the size of the car engine.

Of the two other immediately available options, 3.2 per cent chose another carless day and 1.6 per cent a big increase in the price of petrol.

A third chose three longer-term optiona: 15.3 per cent the use of synthetic fuals or methanol blends; 13.3 per cent the conversion of more cars to compressed natural gas; and 4.6 per cent the export of surplus natural gas to finance more petrol imports.

Some 1 per cent said they did not know.

There was a majority for rationing in all age groups. The older the respondent, the more likely he-she was to go for rationing — 72.3 per cent of those aged 55 or older did.

The youngest group, aged 15 to 24, were most likely to opt for another carless day or for a price rise. They were also most likaly to favour exporting gas. Use of the synthetic fuels or methanol blends appealed most to those aged 25 to 54 and least to the aver-54s.

Respondents whose cars were company-owned were less enthusiastic about rationing than others.

But even among these people, 45.8 per cent favoured rationing.

Respondents hsd a low opinion of the value of carless days as a petrol-ssver.

Thrae-quarters (74.8 per cent) thought caraless days would have no affect on the amount of patrol thay bought for the car they mostly drova.

Only 22.2 per cent thought it would decrease their purchases and 3 per cent thought they would buy more.

There was general agreement among respondents that there is, in fact, an energy crisis.

Some 82.9 per cent said so, and 17.1 per cent said there was not.

These figures were consistent across age groups, geographical area and even voting preference.

As to who is responsible for the crisis, a majority thought it the fault of the Arabs or the oil exporting countries: 52 per cent.

This explanation was most favoured by the over-54s. It was also much more likely to be chosen by National supporters than supporters of other parties.

Supporters of Labour and Social Credit were more likely than average to lay the blama at the door of the Govemmant.

Some 35.8 per cent of Labour supporters and 33.7 per cent af Social Cradit aupporters thought this, compared with only 14.0 per cent af Nationalists.

A little over a quarter af the whole sample, 27.8 per cent, blomed the Government.

The next favourite scapegoat was the oil companies — 8.3 per cent chose them.

Close hehind came the chest-beaters — same 8.1 per cent thought it was the New Zealand public that was at fault.

This waa particularly popular among Values supporters, a majarity of whom, 53.8 per cent, thought the public was to blame. But this figure is not reliable since there were very few Values supporters in the Heylen sample.

Interestingly, among those who thought there was no energy crisis, nearly half, 49.0 per cent, blamed this non-existent crisis on tha Gavernment.

In other words, there is some belief that the Govemmant has made the crisis up. Some 2.3 per cent of the whole sample said Gavernment misrepresentation was at the raat of the crisis.

A little aver a quarter af tha sceptics, 27.1 per cent, thought the Arabs or the oil exporting countries had manufactured the crisis; 5.8 per cent said it of the oil companies and 4.4 per cent thought the public had deluded itself.

Among ways in which the Government was thought respansible for the crisis waa lack of planning, a failure to seek alternatives and a lack af exploration, bad economic policy and lack of overseas funds, the failure of its conservation measures and, as mentioned above, misrepresentation.

The main ways the public wos held responsible for the crisla were in apathy and general wastage.

The Arabs got it in the neck primarily for raising their prices, but also for holding back stocks and using control of oil supplies for economic and political power.

Nearly half of those who blamed the ail campanies thought it was because af their "greed for money". Another popular belief wos that tha oil campany ware holding back stocks.

Post Office drops centralisation plan

COMPLETION of the Christchurch postal centre will mark the end af multi-million-dallsr Past Office plans to centralise processing facilities.

Instead, the Auckland area is ta be served by a network af pracessing centres, ta be established as the need arises.

Mail and processing units probably will be established in Snuth Auckland, tha North Shore and West Auckland, to augment the facilities of the chief post affice mailroom which will remoin in the netwark.

It was thaught the concept af postal centres — which praress, cansalldate and circulate mail for o particular area — would pove the way far the introductian of electronic sorting equipment.

But according ta a Post Office spokesman, present valumes af mail are insufficient ta justify what would be a multi-millian dallar project.

The Post Office is adopting this approsch for the Auckland orea because its size is much greater than that of Wellington nr Christchurch; this makes network development a more ecanomical and efficient arrnngement thnn one lorge central complex, the spakesman snid.

Netwarks are preferred hecause they mean less dead running for vehicles, henca a saving on fuel and ather costs, greater potentisl to recruit stoff locally, and lawer copital costs.

Large postol centres, on the other hand, require multi-storeyed accommadation ond hence high capital outlay for both the building and mechanical handling aids for moving mail from level to level

The Post Office official said the Auckland plans will not affect the role of the Wellington centre, nor that of the centre nearing completion in Christchurch

Both are capable of effectively servicing the areas for which they have been designed, he said.

Participation ... key to greater productivity

N.Z. case-studies in important, new management methods

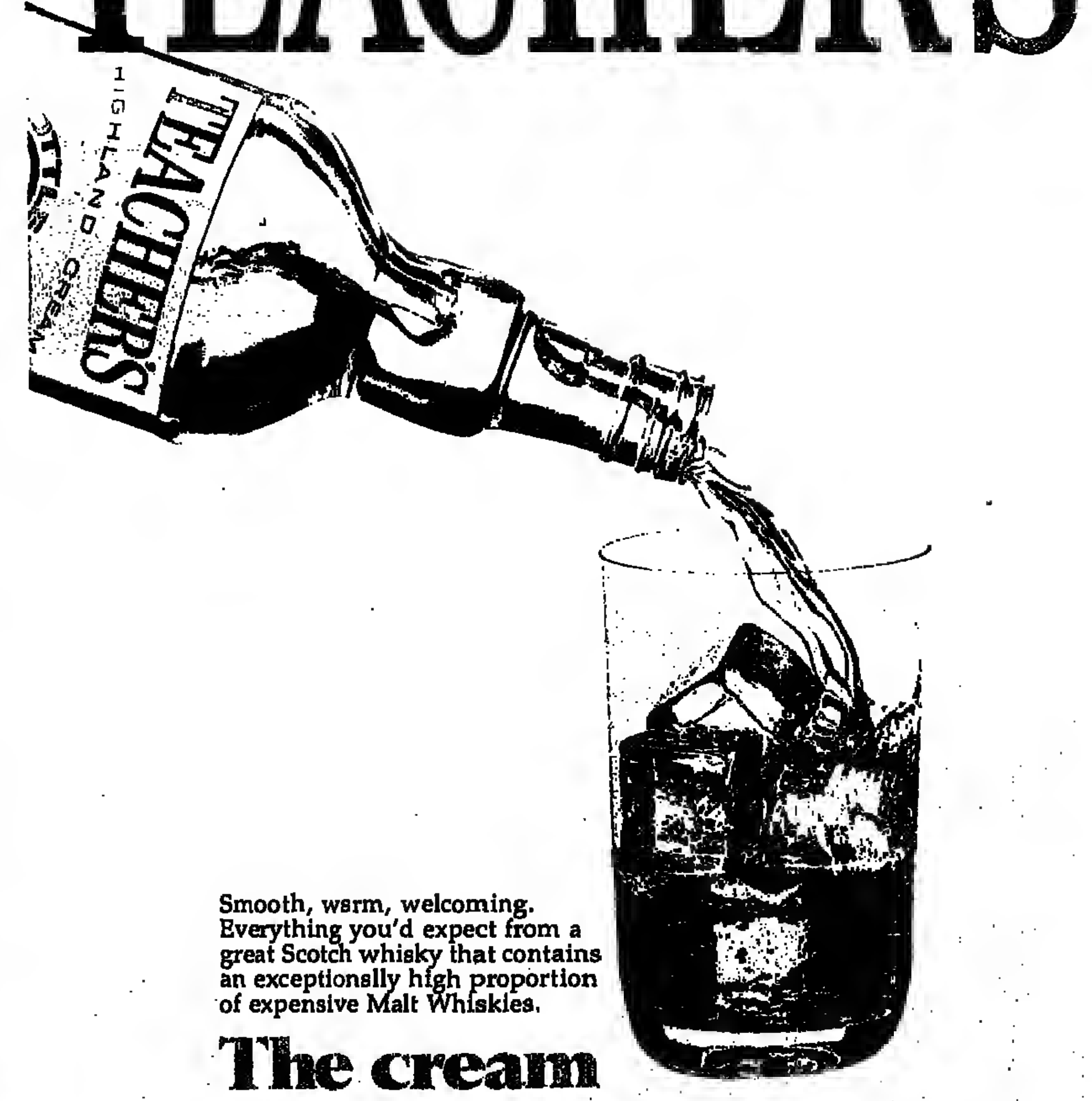
"It is imparativa that wa re-oriant aur work organizations to tha radically changed circumstancas we face as a country."

So says Roy McLannan, senior lacturer in Business Administration at Victoria University, end editor of *Participation & Changa in the Naw Zaaland Workplace.* This important naw book is intandad to halp Naw Zaalanders davalop insight into mathods which aan transform tha performance of our antarprisas, and the satisfaction paopla gat out of thair work.

In a highly rsadable introduction, McLennan explains how participation and changa, or 'Drganization Davalopmant', warks in theory ... than thraa Naw Zaalsnd pilot studies show what happans in practica as well.

Participation & Change in tha Naw Zealand Workplace, publishad by Fourth Estata Books. Only $4.95 at all good bookshops, or direct from Fourth Estate Books, P O Bax 9344, Wallington. (Saa Fourth Esteta Subscription Sarvice coupon alsewhera in this issua.)

TEACHER'S



Smooth, warm, welcoming. Everything you'd expect from a great Scotch whisky that contains an exceptionally high proportion of expensive Malt Whiskies.

The cream of Scotch whiskies

GBI 100 001A

Managers shy from tackling computer abuse

Melbourne Correspondent

A GROUP of Australian academics has undertaken what is believed to be the first national survey of financial loss incurred through computer abuse.

The study, conducted by the Caulfield Institute of Technology in Melbourne, will also try to discover why Australian business management is unwilling or unable to do much about it.

Electronic data processing auditors have been warning the business community of the growing incidence of computer related fraud; but a spokesman for their professional association said the warning had apparently passed unheeded. He accused management of burying its head in the sand in the hope that the problem would go away.

Not all EDP auditors agree.

Some claim that the threat of computer fraud has been exaggerated. They say very few frauds have been perpetrated by computer personnel; since the normal management controls now used by most big organisations would reveal large irregularities.

In their view, business management is being unnecessarily frightened by sensationalism. They believe that the Australian community faces more dangers from industrial action by computer operators than through computer crime.

Litigation is now in progress to bring computer operators under the aegis of the Clerks' Union. If it succeeds they will be transformed into one of the most powerful unions in the country, through control of the nation's computers.

Which ever view is correct, the difficulty facing Australian management is, that all the existing data on computer abuse is based on overseas experience — mainly in the United States.

Answers to the survey's 5000 questionnaires will provide for the first time Australian data as the basis for company policy — and some facts to decide which of the two opposing views is correct.

It has been estimated that there are some 2000 computers in Australia and about 20,000 electronic data processing staff.

By American standards the number are trifling and small, but it is worth remembering that the foreign assets and investments they control are not.

There have been very few reported computer crimes of any magnitude, and the Australian public is less accustomed to its reality than are Americans. But this in itself may not reflect accurately its incidence.

Australian management is more inclined to dismiss employees found engaged in computer abuse than prefer criminal charges. Since the public is unfamiliar with computer crime any scandal may well harm the standing of the company.

Last year the 7000 member Computer Society of Australia issued computer security standards, but the general feeling within the security industry is that management would be more concerned to lock the computer than to employ expert EDP auditors to implement those standards.

According to the Caulfield Institute of Technology, computer management has concentrated on production at the expense of control and security.

Warnings have also been voiced by visiting American consultants. On a recent visit to Australia, N Stratland, EDP director of Price Waterhouse US said that it would be quite possible to walk into the computer department of some companies and begin operating the machine unchallenged.

Some domestic critics of EDP security believe the need for tighter control by Australian management is urgent, since the technical training of Australian police forces is quite inadequate to protect business from schemes of massive embezzlement.

At the first national police seminar on computer crime, officers were given a five hour lecture.

The chief of Sydney's fraud squad said: "In the end we are going to have people specialising in computer crime."

Australia already has people specialising in computer crime. Last year one report estimated that these "specialists" stole $[illegible] million; Australian professional bodies know that those who hope to combat the larceny must match their skills, with rather more than five hours instruction if Australian business is to be less vulnerable to computer abuse.

Car trends indicate market contraction

CURRENT trends indicate that the car market for 1979 will be at around 65,000 units, although some auto companies suggest a lower figure of 63,000.

In June there were 33,597 cars registered. This includes 1472 ex-overseas cars and compares well to the 30,912 for the same period last year.

Sales in the first quarter this year were buoyant with the second quarter stabilising to a level similar to 1978. The next half year may see a contraction, aided by the recent devolution and continually rising local costs.

The energy crisis will also have an effect on the local market, although in the longer run, people are keeping their cars for more time than in 1975. So the demand for replacements is lessening.

The average turnover period is now approaching three years and could be extended even further. Higher prices and a possible reduction in use (therefore reduced wear and tear) may put off a lot of replacement decisions.

Sales in the under 1300cc category have increased this year, to nearly 41 per cent.

This compares with 37.8 per cent in 1978 and a low of 24.4 in 1973. It is interesting to note that 1978 saw 46.9 per cent of all new cars registered with engines less than 1300cc. After that year there was a shift away from the economy cars but 1979 has seen a renewed interest in this sector.

The larger 1600 to two litre bracket has remained stable for four years with its share in the 31 to 32 per cent range.

Overall growth in this sector is unlikely as most of the improvements will come in the 1300cc area.

The new Sunny from Datsun and the supershift Mirage, both economy oriented cars, will be joined in the next 12 months by a new Escort, Civic, Corolla and Chevette, so 1980 will be an interesting year.

The large car market has declined this year but may pick up in the second half with the new Falcons and Commodores.

Todds' Valiant ceased local production recently but its demise will not be noticed. Sales of Valiant accounted for 6 per cent of over two litre cars so far this year.

The New Zealand Motor Corporation is hoping for 100 sales of its new luxury 3500 Rover in a year which will secure it 13 per cent of the big car market.

To date, GMs have 35 per cent and Ford 30 per cent. This means that all the other companies will be fighting for 24 per cent of a sector which accounts for one in nine new sales.

This could mean the end of the line for the Crown and [illegible] the leaving the market to the imported expensive [illegible]

Market Structure	Year to date (per centage)	1978
Up to 1300cc	40.9	37.8
1301 to 1600 cc	18.6	17.3
1601 to 2000 cc	31.9	32.2
Over 2000 cc	11.6	12.7

Buyers opt for economy: luxury takes tumble

Motoring Writer

SMALL cars are in fashion again.

1976 was the peak year for cars with engines less than 1300 cc, but in the following two years, registrations in this sector fell from 46.2 per cent to 40.3 per cent.

This year, the statistics reflect a renewed recognition by the buying public that small cars, economy and relatively cheap capital cost far outweigh performance, comfort, luxury and space.

So we set out to find the car at the top of the cheapies.

This posed a problem, because of the wide range of models available.

Should we choose a two-door sedan with the smallest engine, or four-door with a 1300 unit?

Or a three or five-door hatchback, coupes or stationwagon?

A basic guideline was needed, so list prices were compared. Price is one of the Rolls Royce's incomparable features; surely this rationale could be applied to cars with motors less than 1300 cc to find the "economy" Rolls.

The review of prices showed that Todd Motors had just released a five-door Mitsubishi Mirage GLX at top spot. Arrangements were made for a test car to be supplied, but at the last minute the car was not available. Todds arranged a "cheaper" three-door version, similar to the new five-door in design and construction.

At $8247, the five-door Mirage is $182 dearer than the Ford Escort 1.3 GL manual and $592 above its direct competitor, Mazda 323 five door.

Mirage was launched in New Zealand in February and joined three other locally assembled hatchbacks.

The biggest selling hatchback is the Honda Civic. Well behind is GM's slow-moving Chevette.

Twelve different makes are represented in the up to 1300 cc category with different models exceeding 40. Four of the cars are also offered with 1600 engines, which places them into the higher sales tax bracket.

First impression that the Mirage was nothing exceptional. The interior of the test car was lavished with off-white vinyl and the seats sported a black and white checked nylon insert.

The bottom half of the dash area was presented in white plastic. Distinctive, unusual and a little bit overdone.

The seats were comfortable, supporting all the right areas. There was plenty of adjustment available, giving acres of room in the front for long-legged drivers if necessary.

Driving position is very good, aided by excellent visibility from the Mirage's glass-house. The only impediment to the driver's sight was the number of stickers on the right side of the front screen; a warrant of fitness, carless day and servicing sticker.

Instruments on the Mirage are good but not comprehensive. Missing is a tachometer. What is there is well laid out and informative.

In the centre of the dash is a digital clock illuminated when the ignition is on or when a button is depressed. This is a good feature, although for the driver the figures are a little small.

Wiper and head light switches are positioned on the top extremes of the instrument binnacle rather than on normal steering column stalks. They are easy to operate and are superior to stalks; a quick glance tells the driver what functions have been selected.

A strip of warning lights across the bottom of the instruments informs the driver of all the usual things and includes a door ajar light.

The well laid out heater-ventilation control, a la Sigma, cope well with the task asked of them, although the use of high speed position of the fan is often required.

Handling of Mirage, with its front-wheel drive layout, is predictable and pleasant. The ride is stable, firm and overall a treat for enthusiasts.

The brakes do their job properly and efficiently.

The passenger cabin is well insulated from road noise and engine roar is subdued. Wind resistance is almost non-existent, thanks to the clean and smooth body design.

All this adds up to a car that is comfortable and up to date, but nothing significantly different from any of its competitors. So how does it justify its high price tag?

The answer lies in its engine and gearbox. The 1244 cc motor mounted transversely to drive the front wheels is flexible, efficient and has heaps of power.

MIRAGE..."distinctive, unusual and a little bit overdone.

Combine this with a gearbox designed to maximise these features and you get "supershift". That's what Mitsubishi call it — and it is something every modern car should have.

The most direct equivalent to the supershift would be for the Mirage to have overdrive in all gears.

A second lever, to the right of the stick gear stick, gives the driver a choice of gear ratios to suit almost any conditions. Push the selector forward and you get power, pull it back and you get economy.

It is possible to use the two levers to achieve eight forward gears, although taking the feature to that extent is really of novelty value only.

The power position is designed to be used for urban areas and economy for country and highway roads.

With the power mode selected, performance is brisk and will get you from A to B quickly and safely. In economy the car is sluggish when required to get the car into forward motion although this would not be noticed by the more sedate driver.

The greatest feature of the supershift is the ability to change the gear ratios to suit the type of road, and therefore efficient driving.

Normal economy of 40 miles per gallon can be expected and 50 miles per gallon attainable on highway cruising.

These sort of results put it in the same class as the Mini, which has been around for 20 years.

It is the engine and transmission that makes the Mirage stand above the competition, although it doesn't qualify it for the Rolls-Royce title.

Reserve Bank produces crucial policy points

by Peter V O'Brien

THE Reserve Bank has a disconcerting habit of publishing annual reports which either recommend action which governments have failed to take, or which they take in budgets after the end of the Bank's March 31 year.

The report for the year to March 31, 1979 is an example. It was presented to Parliament after the Budget, so some of the bank's recommendations on the economy have been dealt with. Others remain outstanding.

The bank has become more outspoken in its comments on the economy in recent years. A comparison of the latest document with that of 1970 shows specific views and recommendations in the former, while the latter talked in general terms about economic developments and monetary trends.

Greater complexity in our affairs, the severe downturn experienced since 1974, and improved economic analysis over the period may explain the difference between the reports, but it is still noticeable.

This year the bank produced nine policy points which it says are "of crucial importance to New Zealand's medium-term future".

The first is the relationship between increases in incomes and increases in productivity.

The bank wants the Government to initiate consultative arrangements "to endeavour to achieve agreement on the optimum level of wage and price increases for the next year and an appreciation of the effects on employment and production which follow from actions which lead to costs and prices higher than the agreed levels."

In view of recent events in the wage fixing field, including current industrial disputes, those "consultative arrangements" may be some time in coming, apart from the regular formal and informal talks which take place between the administration and the FoL.

The bank also wants a review of whether it is necessary to retain "such a wide range of costly official licensing and regulatory arrangements as we have at present".

The bank's report said that the recent example of freeing up detailed controls over the financial system should give the government confidence that similar moves in other sectors could be beneficial to the economy as a whole. Apart from "minimising the costs of making productive investment," this would also remove the "administrative and legislative complexities too often faced by those expanding or initiating productive undertakings".

The Government response to that suggestion was the "investment unit" designed to guide overseas companies through the New Zealand regulatory, departmental and local authority maze. Last week we saw an example of the extraordinary way in which New Zealand goes about regulating people.

Formal application had to be made for permission to run cinemas over the Christmas school holiday period to show locally made films because the normal outlets have advance commitments to their overseas suppliers.

Why does anyone need to make a formal application to some statutory body to show a film? Local authorities have the power to ensure appropriate fire, health, and other standards, and the film censor can defend the public morality.

Running a cinema is a business venture, which operates at a profit or a loss depending on the owner's business ability and the public's response.

We hold formal hearings to decide who, and how many people, shall sell petrol, carry goods by road, operate a freezing works, sell liquor, and own taxis. Anyone can open a shop, sell cigarettes (as dangerous as liquor?), drive a car, work as a doctor, dentist or lawyer, and run numerous other businesses provided they meet the formal qualifications in the case of professions, and again carry out the fire, health and general standard (including competence to drive a car) applicable to a particular activity.

There are no formal authorities holding hearings and wasting money in regard to those activities. But the government does nothing, and several licences carry a money value as a result.

The Reserve Bank wants a review of import licensing and tariff system. Some progress is being made on that proposal, following budget statements. The fiscal deficit is the target of the next two policy points which also cover "firm restraint" in growth in money and credit. The bank is being listened to, on the basis of recent policy changes.

We then come to "some relaxation of the application of overseas investment criteria and a more publicly enlightened attitude to foreign investment could help promote inflows of capital and technology, stimulate employment and provide better access to export markets".

The Government has published "new" criteria which we examined in NBR on August 8, and found them to be a recycled version of general industrial development criteria set out in 1963.

The bank's ninth policy point relates to the exchange rate.

The new exchange rate system shows progress, and additional developments can be expected in future.

The bank sums up its views with a warning:

"Without a series of changes along these lines it is likely that New Zealand will simply continue to face much the same set of problems as it faces today, which remain disconcertingly similar to those we faced several years ago".

The report has a section on monetary policy. One sentence is relevant to future activity in government loans and similar measures.

"Present conditions call for firm monetary restraint and this will involve a continuation of tight credit policy and a heavy programme of sales of Government securities to the non-bank private sector".

Analysing annual accounts

by Peter V O'Brien

THE annual report of the Bank of New Zealand is a difficult document to analyse, because the organisation is a strange creature.

The largest financial entity in the country has one shareholder — the Crown — and reports to "the Right Honourable the Minister of Finance", a gentleman who can affect the bank's trading in several ways.

The bank competes with privately owned trading banks, but is liable for taxes levied by the same minister of finance in the name of the Crown, and pays a dividend to the Crown.

In the year to March 31, 1979 the Crown took $14,461,000 in income tax from the bank, and received a dividend of $8,105,000 from the remaining tax paid profit.

The bank operates in line with normal commercial principles, but it differs from a company, because its shareholder gets two slices of disposable cake, and owns the portion of the cake which is put back in the cupboard (transfer to reserves).

A further distortion of the real world occurs in the bank's solemn comments on profitability. "The much improved result this year is particularly gratifying to board and management, in that the bank has progressed much closer to what is considered an acceptable return on shareholders funds."

The "much improved result" was net profit of $12,003,000 (consolidated accounts) from trading income of $114,205,000, and a return of 11.13 per cent on shareholders funds, compared with 7.43 per cent in 1976.

While it can be accepted that the representative of the shareholder ("the Right Honourable the Minister of Finance") is aware of the bank's structure and financial operations, the rest of us also have an interest in its activities. The annual report has some deficiencies in that context, at least one of which shows an extraordinary disregard for the affairs of other State bodies.

Referring to the introduction of its Visa card, the bank says: "Although Visa International is the world's largest and most successfully established financial card organisation, some initial opposition to its introduction to New Zealand has been experienced. However, this has followed a very similar pattern to overseas experience on the introduction of a plastic card service. It is expected however that as the use of cards becomes more widespread and the benefits better known to cardholders, as in overseas countries, the card will become an accepted feature of the payments system.

"Bank of New Zealand will continue to further develop its Visa-Nationwide card service to provide its customers with a variety of benefits and service best suited to their particular needs and requirements."

Apart from "initial opposition", there is no mention there of the fact that a decision of the Commerce Commission is still awaited on the use of bank cards.

The use of the expression "will continue to further develop" (their split infinitive, not ours) is close to deciding the issue before the commission. Irrespective of the final commission decision (an unfavourable one will probably be appealed immediately by the bank's legal guns), is it appropriate for the State owned trading bank to make such comments, with no reference to the hearing?

The bank's accounts could do with further explanation. The consolidated profit and loss account shows that trading income, after allowance for bad and doubtful debts, was $114,205,000. That disclosure follows the general pattern now recommended for trading companies.

An organisation with consolidated assets worth $2.85 billion (and, according to one of many press statements issued with the report, ranking "in the first 300 in assets out of 46,000 banks in the free world") could let people know how it obtained its income.

Changing monetary policy, including a growth of more than $150 million in lending by the BNZ for housing purposes last year, must alter the bank's earning mix.

The report says that total lending to the personal sector accounted for 20 per cent of total BNZ trading bank lending, compared with 14 per cent in March, 1978. Loans to meat companies and farmers are described as "other major areas of lending growth during the year".

The bank also has a strong international business in financing the export trade.

Disclosure in broad terms of different income sources on a comparative basis would assist understanding of the accounts. Provided the breakdown was given in major areas of activity there seems little opportunity for competitors to gain an advantage.

The BNZ's assets and liabilities of its long-term mortgage department are published regularly in the Gazette and more information about trading income is desirable in the annual report.

The consolidated balance sheet has an outdated treatment of land and buildings. Land is recorded at Government valuation, but buildings are brought in "at original cost plus improvements less depreciation". The bank should realise that the preparation of accounts in 1979 demands better information on values than the treatment in the report.

The best understatement in the report falls within the comments on buildings. Under the heading "head office redevelopment", the bank says:

"The new BNZ building under construction in downtown Wellington with portions of the steel frame now at level 25, is running well behind schedule."

Those of us who dwell in that fair city look on the rusty frame of the BNZ's new building as a Wellington landmark, to rival the Beehive. We look forward to the day, assuming we still tread this coil, when the Bank puts the completed building on the cover of the annual report, in place of its stars and gold discs.

Renewed interest in Feltex

by Peter V O'Brien

THE market has renewed its interest in Feltex New Zealand's shares as the time for the preliminary report (usually in September) comes closer.

Sizable parcels changed hands in recent weeks, and the share price moved to $1.14 last week, the high for the year.

Since the low was 96 cents for the 50 cents units, the price increase this year has been unspectacular, but at the end of June the shares sold at $1, so there was a 14 per cent increase in two months.

The Smith and Brown Maple Furnishing subsidiary, 60 per cent owned, reported a 30 per cent profit lift on August 27, and that result probably influenced buyers of Feltex stock.

Smith and Brown Maple earned $2,467,000, compared with $1,904,000 (excluding capital profits in both cases). The subsidiary is now above the earning rate of 1977.

The inclusion of SBM profits in the Feltex result will give net profit a healthy lift.

Feltex gave notice in the interim report that trading was much better than in the previous year. Earnings to December 31, 1978 were $4.5 million, compared with $1.9 million in the corresponding period of the previous year. Tax was substantially higher in the first six months at $1.9 million as against $0.4 million in 1977-78. Tax was 28 per cent of pre-tax profit, compared with 17 per cent in the previous year

The interim report said the company was directing its strategy towards obtaining an improved share of the static domestic market and actively seeking new markets overseas. The report added that higher energy costs would tend to limit expansion of overseas markets.

Feltex is a large exporter. Last year exports had a sales value of $20.4 million, or 10.3 per cent of the total $196.7 million. In the previous year exports were valued at $20.1 million, being 9.3 per cent of total sales worth $216.3 million.

The improvement in the domestic market assisted the company in the first half of the year, and probably continued to June 30.

Shareholders will be looking for a good result, because in 1978 net profit was $7,382,000, a drop of $4,134,000 on 1977's $11,516,000.

Last year profit was below that of 1976, only 14 per cent higher than the $6,467,000 recorded in 1975, and $1.6 million under 1974's $9,179,000.

The company's capital reserves, and its policy of paying dividends from them, are a major reason for market attention to the shares.

At last week's price of $1.14, the shares yielded 7.2 per cent from a total dividend payment of 16.5 per cent (6.25 cents a share) in 1978. The payment was covered 2.1 times.

The interim dividend for 1676-76 was held at the previous year's figure, but it is logical to expect a higher return to shareholders this year. Profit may fall to reach the level of 1977, but the first half result suggests a solid cover for any dividend increase.

Feltex paid all the 1978 dividend from tax free reserves, and a continuation of that pattern can be expected this year.

At June 30, 1978, capital reserves available for distribution by way of dividend totalled $17,376,000, of which $4,453,000 was then subject to the consent of the Supreme Court.

Another $0,143,000 in the revaluation reserve was available for distribution in bonus issues. (Only a realised capital reserve can be paid out as a dividend, but an unrealised reserve, such as a revaluation of assets, is available for bonus issues, because it transfers funds from reserves to capital, with no reduction in the "cash" element of the shareholders funds)

With a yield of 7.2 per cent, an individual on a marginal tax rate of 50 cents in the dollar (or more if you are in the higher reaches of the public service or manage to earn enough in the private sector) needs a pre-tax return of 14.5 per cent from an alternative investment before equalling the effective Feltex yield.

At 60 cents in the dollar, the alternative pre-tax return has to be 16 per cent.

The company's divisional performance was probably patchy in the year ended June.

The tyre group, Reidrubber, will have faced the problem of a lower demand for tyres. Two factors affect tyre demand at present. First, is the overall downturn in new vehicle sales. Second is a combination of fuel costs and carless days which cut mileage, and improved tyre quality. The last part of that combination makes tyres last longer, with a consequent longer period before replacement, and lower demand for the manufactures.

The tyre market improved since publication of the 1978 Feltex annual report, but it is unlikely to become a buoyant industry.

Retail statistics show a decline in footwear sales, and it will be interesting to see whether Feltex was affected by the downturn.

The furnishings group, which includes carpet, had a "poor" year in 1977-78, but there has been an overall improvement in this section of the economy since the latter part of 1978.

That could show up in Feltex's performance, subject to the interim report's reference to the problems of higher costs when dealing in overseas markets.

The shares offer a reasonable position for tax-free distributions, assuming that the directors decide to increase the payout this year.

Trading banks expand credit beyond guidelines

by Peter V O'Brien

THE trading bonks have moved credit expansion above the guidelinea aince the beginning of the finaneial year, according ta figures In the iatest issue of the Reserve Bank Bulletin. They are significantly below the aubatantial increase In 1978-79.

Between March 14 and June 13, trading banks "overdrafts and term toans" Increased 3.1 per cent, compared with a movement of 9.60 per cent In the preceding three months. The latter period contains seaaonai factors, but the overall movement was well ahead of the government's credit guideilnes.

In tha iatest breakdown of overdrafts and term ioans, the tradlog banks expansion is above the 8 to 12 per cent credit expansion set for 1979-80.

Part of the reason for the lower rate of expansion la the action taken on reserve asset ratios (that proportion of sssets which must be held in reaerve securitiee, and Is unavailable for iending). Policy has been tight in this area in recent months, and the ratios for September continue the trend.

Reserve aaaets comprise "demand and tima balanees at the Resarve Bank, government stock, Treasury biila and hoidings of Reserve Banks notes", according to the formai definition.

The September ratios are set at 30 per cent of damand deposits and 20 per cent of tlme deposits. In August tha figures were 32 per cent and 20 per cent, the latter figure being raised from 15 per cent In February.

The notification from the Reserve Bank to tha trading banke last week contained no statement of a policy change, so the adjustment to ratios for September can be takan aa a seasonal movement, deslgned to maintain a tight credit system.

The figures for iending in the Bulietin are taken st a midpolnt in each month, so there can be weekly fluctuations. Later statistics, issued weekly, show that average bank iending for lha month of June waa \$3318.2 million, rising \$3,377.6 milllon for July, a iift of 1.9 par cent. Again there are seasonai alements, and "under and overs" applicable to those changes.

The average of "total lending" each month went from \$3161.5 miliion in Msrch to \$3316.2 million in June, wbich ia 4.95 per cent, or 1.65 per cent a month. The banks were above the guideline in that period, and July's movement of 1.9 per cent increased the shift.

The same can be said for the finance houses, whose 5.2 per cent expansion between March and June lead to an increase of 2.5 per cent in the amounts they are required to hold In Government aecurities.

Unfortunataly, the iateat breakdown of iending by industry sectors goes only to mid-June, but there were aome Interesting alterations within the sectors for the three months period.

The "personal" section of the classification showa that lending went from \$603.2 million on March 14 to \$631.9 million on June 13, an Increaae of 4.75 per cent. Housing comes within that section, and the change waa 6.45 per cent In loans for housing purposes.

Housing requirements appear the section least suhject to seasonal fluctuntions, in the acnse that lending rises steadily each month, while other areas of the economy alter depending on the need for money at particular times of the year.

The latter groups are best compared on on annual basis, particularly the group titied "Farming, forestry, hunting ond fishing". But housing loans, which were 11 per cent of oll bank iending in June, compared with 10.7 per cent in March, also reflect Increasing private sector Involvement in house finance, apparently In line with Government policy.

Requirementa ot manufacturera for funda, or perhaps the amount made availablo to them, were remarkably steady os a proportion of totol iending In the three months.

They were 32.6 per cent in March tat \$994.3 million from a total \$3032.3 million) and 32.6 per cent in June (\$1020.5 million from \$3126.4 million).

The three month change was 2.6 per cent, so, either by design, necessity or the general atate of the economy, lending to monufacturers was within the guidelines, although there were ups and down on a monthly basis, and considerable movements in subgroups of that division, which includes dairy factories and freezing works.

The latter industries are seasonal, which explains loans of \$110 million to dairy factories in September, dropping to \$32 million In April and rising to \$44.4 million in June. Freezing works follow a similar pattern, but the low applies In different months. In September their total from the banks were ... million. They peaked at ... million In April, and stood at \$382.4 million in June.

Local film makers battle cinema chains over scheduling priorities

NEW Zealand film makers are sgain battling the two major film chains in the country, Kerridge Odcon and Amaigamated Theatres.

Thia time the issue is the screening time and run given to New Zealand flims, compsred with the treatment of overseas fiima.

A group of film makers ciolm that New Zealand films, regardless of box office appeai, are puahed off the screens because the theatre chains are obiiged to favour the products of their forcign controilers.

The concemed film makers, Concert Promotiona Ltd and Associatea, have appiled for on independent exhibitors llcence entitling them to show New Zealand-made fiims only In one Christchurch and one Auckland cinema (The Theatre Royai and His Majesty's Theatre respectively).

Concert Promotions Ltd and Associotes conaiats of Concert Promotions Ltd, H J Hart nnd Associatcs and Endcavour Productions.

John Barnett, of Endeavour, wss the producer of the successful locai film, Middle Age Spread:

Objections to their applicotion have been lodged by Kerridge Odeon, Amaigamated Theatres, Maaters Independent Theatres and Jan Grafstad.

Counsel for the applicants, Psul Cavanagh, put the case at o hearing of the Films Licensing Authority In Auckland iast week.

Sold Cavanagh: "Tho authority la heing nsked to consider a altuation never before addressed to it — the entitiement of the New Zealand fiim-maker to hove his product shown to an audience in the morket place who clearly had demonstrated o desire to see their films".

The producer of a motion picture was dependent on the exhibitor to get his picture to the public, Covanagh said.

"Producers and distributors here os overseas find it good business to do circuit deais with exhibitors. This results in the exhibitor entering into controctual obligations that may not be in the public interest particuloriy if it means that to preserve their first release monopoly the chains now seek to block an upplicotion such us this one".

He submitted "The New Zealand Exhibition Industry is in fact dominated by 20th Century Fox and the Rank Organisation, who respectively control Amalgamated Theatres Ltd and the Kerridge Odeon organisation. Though no overt connection exists between the two chains, as is evident today, they often find common cause in protecting their vested interests.

"As vertically integrated cinema chains, their interests are in fact in many ways opposed to the promotion of a New Zealand motion picture industry.

"Thus this case will disclose that the New Zealand cinema industry is dominated by the interests of foreign producers who exercise a monopoly control of first release houses in this country. These cinema chains have the sole right to determine when and for how long if at all a given film will obtain release within their circuit thus determining in o manner unrelated to morkot forcea whether or not o film is to be a commercial success In this country.

"Evidence will be given to show that all the New Zealand films shown In this country since 1977 have had their runs curtailed at a time when they were enjoying substantial business at the box office and only because the theatre chains had contractual commitments to show foreign films, thus necessitating the replacement of the New Zealand film then on exhibition", Cavanagh said.

". . . the evidence will further disclose that the exhibition industry is currently going through a period of economic buoyancy. Both chains have published accounts disclosing substantial profits. As the application seeks the right to screen only New Zealand and Australian films it seems hard to understand the chains' opposition", he said.

After o meeting in chambers, the hearing was adjourned to a date yet to be fixed.

NBR SHAREMARKET SURVEY

WEEK ENDING AUGUST 30, 1979

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1979 High	1979 Low		Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P-E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1957 = 100)